Aalto University
School of Business

Adjusting Components of Management Control System for Strategic Change - Case: A Real Estate Service Provider in Finland

Accounting

Master's thesis

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Abstract of master's thesis

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Abstract

This research is about Management control system (MCS) and how components of MCS are adapted according to the organisational changes. This is a single case study of a real estate service providing limited company in Finland. Case Company wants to ensure the strategy execution by improving its MCS and measurement systems.

The research is a constructive research of MCS in Case Company. I work together with Case Company representatives to understand and to describe the reasoning for current management control system and to understand how the new strategy implementation will affect MCS.

Case Company has defined a new strategy for growth plans. Therefore, Case Company has in its interest to clarify MCS and to set corporate indicators with strategic goals. Case Company should translate the strategic objectives at every management level. Case company has set three strategic priorities and two of them are taken into consideration. These two strategic priorities are about exploiting the current service product range. Third is about acquiring companies with strategic fit, but this priority is left out of this research.

This research is a qualitative research and Case Company specific material is mainly from interviews. First, Management Team Members (MTMs) are interviewed to understand how the intentions of the strategy implementation are. Second, Heads of Unit (HU) are interviewed to understand, how control is seen at lower management levels of Case Company and how effective control system is. Interviews are also from strategy perspective, to understand how successful the implemented strategy has been so far and how HUs have understood the strategy.

In this research, components of the MCS have to be adapted to enable the strategy execution. To be successful in strategy implementation, based on the research, I suggest giving more attention for administrative, cybernetic and planning control systems in Case Company. These control systems lack accurate use for strategy execution. Then, cybernetic control systems should be given more emphasis on monthly financial reporting. Therefore, financial report template is to be used at every management level and given more emphasis on strategic objective manner. KPIs will be assigned both at corporate and at unit level.

Keywords Management control systems, growth, organisational development, Key Performance indicators, strategy

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Tiivistelmä

Tutkielma käsittelee johdon ohjausjärjestelmiä ja miten sen komponentteja tulisi muokata organisaatiokehityksen vuoksi. Tutkielma perustuu yhden kiinteistöalan palveluyrityksen tarkasteluun. Osakeyhtiö toimii Suomessa. Tutkielman kohdeyritys haluaa varmistaa, että strategia ymmärretään jokaisella organisaatiotasolla. Siten johdon ohjausjärjestelmän komponentit tulee mukauttaa tähän strategian muutokseen, joka johtuu organisaation kehittämisestä.

Tutkielma on konstruktiivinen tutkimus johdon ohjausjärjestelmistä kohdeyrityksessä. Tutkielma toteutetaan yhdessä kohdeyrityksen edustajien kanssa. Tutkielma keskittyy siihen, miten johdon ohjausjärjestelmiin on päädytty ja miten strateginen muutos vaikuttaa johdon ohjausjärjestelmiin.

Tutkielman kohdeyritys on määritellyt uuden strategian kasvulle. Sen vuoksi kohdeyritys haluaa selventää strategisia tavoitteita ja asettaa yritystasoisia mittareita näille strategisille tavoitteille. Strategiset tavoitteet määritellään jokaiselle johtotasolle. Kohdeyritys on määritellyt kolme strategista tavoitetta ja kaksi niistä otetaan huomioon tässä tutkielmassa. Tämä kaksi tavoitteista liittyvät nykyisen palvelumallin edelleenkehittämiseen. Kolmas tavoite liittyy yritysostoihin, mutta tämä tavoite on jätetty tutkielman ulkopuolelle.

Tutkielma on laadullinen tutkimus, joka perustuu pääasiassa haastatteluihin yrityksessä. Ensin haastatellaan johtoryhmän jäseniä, jotta voidaan ymmärtää, miten strategia on suunniteltu toteutettavan. Seuraavaksi haastatellaan yksikköpäälliköitä. Tämän avulla tiedetään, miten kontrollisysteemi koetaan alemmilla johtotasoilla, ja miten tehokas kontrollisysteemi on ollut. Haastatteluiden avulla saadaan myös käsitys siitä, miten tehokkaasti tavoiteltu strategia on kommunikoitu tähän mennessä, ja miten yksikköpäälliköt ovat ymmärtäneet strategian.

Tutkielma perustuu siihen, miten johdon ohjausjärjestelmien komponenttien painotusta tulisi muuttaa, jotta ohjausjärjestelmä tukisi strategian jalkauttamista. Jotta jalkauttamisessa voidaan onnistua, tutkimuksen perusteella ehdotan, että painotusta lisättäisiin hallinnolliseen, kyberneettiseen ja suunnitteluhorisontin ohjausjärjestelmiin. Näiden ohjausjärjestelmien käytössä on puutteita tällä hetkellä, jotta strategia saataisiin jalkautettua. Tämä lisäksi, kyberneettistä ohjausjärjestelmää tulisi painottaa enemmän kuukausittaisessa raportoinnissa. Muokattu tuloslaskelmapohjainen raportti otettaisiin käyttöön jokaisella johtotasolla, ja siten strategiset tavoitteet saisivat enemmän huomiota. Toiminnanohjausmittareita määritetään sekä yritys- että yksikkötasolle.

Avainsanat Johdon ohjausjärjestelmät, kasvu, toiminnan kehittäminen, toiminnanohjausmittarit, strategia

1 Introduction

60 to 80 per cent of the companies fail in implementation of the strategy (Kaplan & Norton, 2008). Studies during the last 25 years have showed this phenomenon. Many times challenges begin already in defining objectives. Management control system (MCS) breaks down strategy into goals and targets at every management level (Kaplan & Norton, 2008). With MCS strategic objectives are linked to operational processes. MCS do not work in isolation (Malmi & Brown, 2008). However, MCS are formed by strategy and on the other hand, information from MCS is used for strategy adaptation (Kober et al, 2007). In this way, MCS generate valuable information for measuring the performance.

As explained, MCS is a very important system to strategy implementation. It takes organisational characters into account. In other words, MCS mission is to communicate strategic milestones and to give feedback of the performance (Kaplan & Norton, 2008). Key performance indicators (KPI) are to ensure minimum performance standards in MCS (Marginson, 2002).

There are no fixed explanations of what kind of MCS fit to specific organisations and drive performance (Dent 1990, as cited by Malmi & Brown, 2008). Therefore, MCS is not a stable system, rather a system that is reassessed as organisation grows and develops. Therefore, MCS is adjusted at the same time as strategy evolves (Kober et al, 2007). Elements of MCS are given different emphasis on different growth phases (Simons, 1995). Marginson (2002) explain the same, that the success of strategy execution is not about designing and planning operating MCS in a specific way rather how managers interpret operations strategically. Therefore, crucial factor lies in managerial perceptions around the MCS.

Motivation

This research takes a look at Case Company's MCS and how to improve MCS to execute the strategy. Case Company wants to stay unknown, but Case Company is a service provider at real estate industry. Currently, MCS are based on previous strategy and strategic priorities in Case Company. Nevertheless, Case Company has come to a new phase and has defined a new strategy for growth plans. Case Company has in its interest to clarify MCS and to set corporate indicators with strategic goals. Yet, Case Company has no break-down of financial targets in operational metrics with clear accountabilities implemented to ensure target fulfilment (Case Company Business Plan). Case Company's management describes that management has not delivered performance control for a quality, process and change level. Nevertheless, these target settings and measurements are useful to identify accurate information and to replace assumptions. Based on these development needs, Case Company's motivation is in clarifying components in the MCS. My motivation lies in understanding how MCS work in Case Company. This research is about developing MCS together with Case Company representatives.

Research method

The research is a constructive research of management control systems (MCS) in Case Company. I work together with Case Company representatives to understand the reasoning for current MCS and to understand how the new strategy implementation has affected MCS. Aim is to find ways to improve the current MCS to enable strategy execution. In this way, Case Company can ensure the translation of the strategic objectives at every management level. It is a qualitative research mainly based on interviews. I am employed by Case Company, but I do not work in company administration. I am commissioned for the research and the research is compensated.

The research is a single case study and it takes Case Company´s aims as a basis for developing management control methods to support the strategy implementation. The empirical research is more of a descriptive research. First, research describes Case Company´s controlling methods and explains managers´ reasoning for the selection. The intentions of the strategy implementation are also explained. This is done from the Management Team Members´ (MTM) point of view. Second Heads of Unit (HU) are interviewed to understand, how control and strategy is seen at lower management levels of the organisation and how effective control system is. Thereafter, I discuss with the Chief Financial Officer (CFO) of Case Company regularly, what kind of decisions managers have made to improve control. This is done, because managerial decisions are made quite frequently at this moment.

Information for empirical part is gathered through interviews, by participating in meetings for management development projects and through review of Case Company's documents. CFO and I conduct ten interviews. Four of the interviews are with MTMs and six with HUs. Managers are interviewed individually and interviews are semi-structured with themes around MCS. The questionnaire is given to every interviewee 1.5 days before the interview and interviewees are asked to go through the questions beforehand to understand the themes for the interview.

Limitations

I will take new strategy priorities as given. Case Company has set three priorities for new strategy. In this research concentration is on two priorities, which are about exploitation of the current service range. The third strategy priority is left out of the research area. The third strategic priority deals with acquiring companies with a strategic fit.

Based on defined strategy I investigate its effect on current management control systems (MCS). I choose Malmi & Brown´s (2008) Management Control System as a framework to take a look at the MCS in Case Company. I will evaluate components of MCS to make a fit for current strategy, and additionally I will take a closer look on cybernetic control to communicate strategic priorities. I will not design MCS for Case Company, implement nor monitor the process. I will look through jointly with CFO, how Case Company can adjust the MCS to make a fit to the changed strategy. The research design relies heavily on managers' descriptions of the actions which have happened in Case Company. Manager, especially HUs, tell what they assume to be happening in Case Company and look for reasons behind manager's actions.

MCS also generate information for decision making. Pure decision making aspects are left out in this research. Still to help the decision making, profitability analysis is taken into account. Otherwise, the aim is at control usage. To be noted, this research makes assumptions and conclusions based on actions in one company and research design relies heavily on managers' descriptions of the actions. Findings from other studies are taken into account and noted in finding solution for Case Company. Nevertheless, these are also treated with caution.

Research problem

Research problem is defined as

> What kinds of components in the management control systems (MCS) can help to support the strategy execution in Case Company?

Problem will be solved in two ways. First, MCS components are evaluated and advised to make a fit to the second phase of the strategy execution. A change demands for different emphasis of the components in MCS and these demands are identified. Second, financial report template of Case Company is improved to support the strategy execution. Financial report template will include a breakdown of strategic goals and target setting. In this way, financial report template is used as a tool and strategic objectives can be brought to everyone´s attention. I will not set specific targets for the performance, rather I will suggest how financial report template could be improved, by using cybernetic control methods as a basis.

Financial report template will include profit and loss statement with variance analysis and also Key Performance Indicators (KPIs) for the performance. In this way, strategic change can be monitored and strategic objectives can be identified at unit level. Financial report template is to indicate company values and key strategic points which are basis for everyone´s performance and to support the strategic emphasis in components of MCS.

Components of MCS and developed financial report template are discussed with the Chief Financial Officer (CFO) in Case Company. I work together with Case Company representatives to understand the substance of their needs and to improve MCS. Financial report template is to give a suggestion of how to proceed in signalling the strategic priorities. Thereafter, I will add additional elements to financial report template. These elements are for Case Company to consider whether company wants to execute those.

Case Company

Case Company is a midsized limited company in Finland. Case Company has 138 people for its service. Case Company is in real estate business and delivers a client-oriented service. Case Company generated 11.2 million Euros in revenues during the last financial year. Case Company is established four years ago and aims for a top position in the Finnish market. During the next four years, Case Company is to quadruple its size in revenues.

Case Company has four business areas. Two main business areas provide similar service but service is targeted for different clients. The other two business areas are built to support the main business areas. Supporting business areas generate 25 per cent of the total revenue. Case Company provides a core service house with supplementary services. The service house from client´s perspective can include service products from every business area or just from one business area. Service product range can be designed according to a client and therefore, the service range is not standardised. Industry is not mature neither competitive yet.

The management team provides a financial analysis for companywide, for business area and for unit performance. In this research, the main focus is at the unit level which is the lowest management level. Heads of Unit (HU) are supervisors for employees. Case Company has three levels of managers: HUs, Heads of Business Area (HBA) and Management Team Members (MTM). MTMs are either HBAs or people with administrative duties.

At this moment, HBAs are accountable for performance in the business area level and for unit level performance. HBAs allocate resources for units and HUs are responsible for solving it how to use the resources. Neither business area nor unit level is controlled by specific corporate performance measurements or KPIs. Nevertheless, many managers at every level use performance measurements as they prefer. Therefore, change has to be seen at control, management and financial reporting and KPIs level.

Structure of the research

The research is structured in a following way. Chapter 2 presents theoretical aspects for management control system (MCS). MCS are a part of a strategy process and I will explain how MCS are involved and how MCS are attached to development phases. I will present two MCS frameworks for picturing the MCS by academic writers. In chapter 3 I will present Case Company in detail and explain Case Company’s strategic aims. I will also explain how the interviews are conducted in Case Company. In chapter 4 I will use the academic research and interviews to illustrate the current situation of MCS in Case Company. At the same time, I will present issues to be improved and how Case Company can make the change. After summing up the improvement ideas for component in MCS, I will present a developed financial report template for formal use of cybernetic controls. This is a tool to execute the strategy and to measure it in an organised way. Chapter 5 is to recap the research and to conclude important points arisen from this research and to explain limitations.

2 Theoretical point of view for Management Control System (MCS)

Strategy evolves during its implementation process, and therefore strategic development is a continuous project, which is adjusted from time to time (Kaplan & Norton, 2008). Kober et al (2007) explain in their research that management control systems (MCS) are not only influenced by strategy, but also effects of changes in strategy. MCS facilitate a change in the strategy, and that MCS mechanisms change to strategy evolvement (Kober et al, 2007).

Kaplan & Norton (2008) explained how management systems link the strategy and the operations. This is called a closed-loop management system and further defines the strategy implementation as a continuous project. The closed-loop management system is shown in *Exhibit 1*.

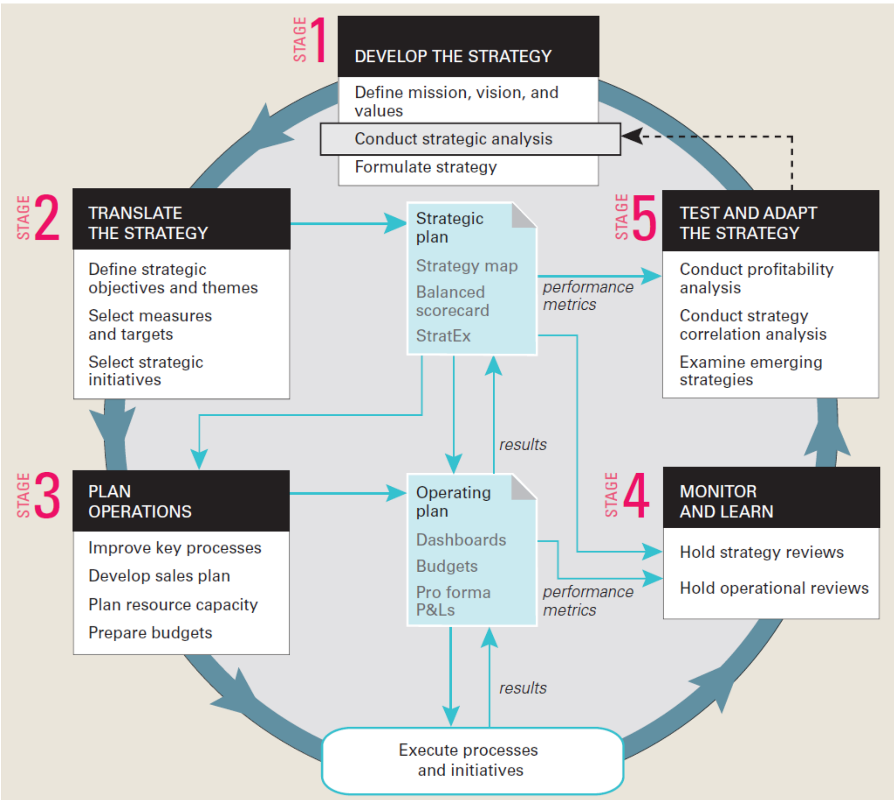

Exhibit 1: a closed-loop management system (Kaplan & Norton, 2008, p. 4)

First stage in the process is to develop the strategy. Company defines a mission, vision and values, then formulates the strategy. *Second* stage is to translate strategy into objectives and themes. Strategy targets and measurements are defined and initiatives attached to strategy. It will also include the resources which are needed to achieve the objectives. Translation will be made visible with strategic plans which are made to picture what strategy means at every organisational level of the company. *Third* stage is to plan for the operations. Here strategic processes are deconstructed to identify critical success factors. In this way personnel will recognise priorities and concentrate on priorities in their daily activities. As the execution of the plan is in process, *fourth* stage is about learning and monitoring. Company will hold strategy and operational reviews. These are evaluated by strategic plan and operational plan which generate information from the performance metrics. At this part, managers should convene meeting for operational inspection and also for analyse performance indicators. These meetings are to identify barriers for strategy execution. *Fifth* stage is to assess the performance of the strategy and to adopt the strategy as needed. This includes conducting profitability analysis and test whether the strategy is correlated in an analysis and how strategy has emerged.

The closed-loop management system can be used in every organisation, but answer to question how to do it, depends on the characters in organisations. Different stages of growth demand for different ways of managing. Start-ups do not have to have a specific management control system, because Chief Executive Officers can coordinate and communicate strategy on daily basis. Control is managed by internal controls (Simons, 2000). Internal controls are to secure assets and to ensure that information for accounting is reliable (Simons, 1995). Control systems evolve for the need to organise performance in a specific way. At the same time control systems will evolve while strategy is implemented (Kober et al, 2007; Dent, 1990 in Malmi & Brown, 2008).

Therefore it is important to take a look at how MCS is pictured by academic writers (Section 2.1) and what kinds of elements MCS include and to what kinds of organisational elements MCS are built on (Section 2.2). Then I describe how MCS can be used (Section 2.3). I will address issues why companies have felt that targets have not been reached by using MCS and why this has happened (Section 2.4). This section is also to picture some challenges that companies face in setting MCS. Last I will present a tool for building MCS. I choose Balanced Scorecard to facilitate the MCS plan and execution (Section 2.5).

2.1 Management control system frameworks

In this chapter I will introduce two management control frameworks, which describe how company can organise its action and guide for the strategic path. Control is used to align individual’s activities with organisation’s objectives and strategy (Malmi & Brown, 2008).

Management control systems (MCS) aim for implementation of strategy. There is no standard way to deliver a well-functioning management control system (Malmi & Brown, 2008). The success depends on company´s individual organisational elements and how well they work together in a control package. Individual organisational elements should be studied carefully and examined in its environment to design a control system. Many researches illustrate examples what companies have to do to get to a certain performance level and how companies have designed a MCS. Nevertheless, there is no direct and straightforward way with right MCS elements which ensure the success in strategy implementation. Managers emphasise issues which are more important for one company than they might be for another. The configuration is the starting point for building the MCS.

2.1.1 Management Control System as a package

Malmi & Brown (2008) management control system (MCS) package is a framework to look at the control as a comprehensive package which is built from different organisational elements. Malmi & Brown (2008) characterise three points which make studying MCS important and also good to keep in mind while designing control package. First, management control system does not work in isolation. Control is a way of organising activities in a company and therefore it is attached to every organisational level. Second, different control systems individually do not give a well-defined solution. Controlling elements are parts of a big organisational puzzle and use of elements might lead to inaccurate decisions if only used separately. Third, designing MCS the impact of other types of controls should be considered in order to produce the desired outcomes. MCS do not only include formal systems, for example cybernetic controls. That would cause limited understanding on the subject. For example, the effect of cultural controls would not be considered in formal controls. Malmi & Brown (2008) explain that previous studies research different controlling mechanisms and their efficiency in specific environment separately. Therefore, controlling mechanisms are planned in one context and together with other control mechanisms do not necessarily reach the desired outcomes.

Components of MCS do not have an equal weight. Depending on the character of the company, components are selected to fit to their activities. Designing the package can be done in numerous ways in order to produce the desired outcomes (Malmi & Brown, 2008). Nevertheless, MCS affect a wide range of activities in a company. It is not possible to make a steady line to separate where the control stops having its effect (Malmi & Brown, 2008). Sandelin (2008) studies how MCS are designed and implemented in two companies and explain the outcome of the MCS decision. Study reveals that companies reach desired outcome in different ways. The success depends on internal consistence and internal control in the company rather than if MCS is designed in a specific way. MCS give an overview for aspects which need to be controlled.

Therefore, there is no single way of designing MCS. Rather control is influenced by various parts of company specific details. Control mechanisms are to get information for decision making and to control organisation to a certain direction. If information based systems are used to maintain or alter patterns, they are control mechanisms (Malmi & Brown, 2008). Malmi & Brown's (2008) package excludes pure decision-support systems.

Components in MCS

MCS are about five components: Planning, cybernetic, reward and compensation, administrative and cultural controls. These components are to address those controls which managers use for directing employee behaviour.

<table>
<tr><th colspan="7">Cultural Controls</th></tr>
<tr><td colspan="2">Clans</td><td colspan="3">Values</td><td colspan="2">Symbols</td></tr>
<tr><th colspan="2">Planning</th><th colspan="4">Cybernetic Controls</th><th rowspan="2">Reward and Compensation</th></tr>
<tr><td>Long range planning</td><td>Action planning</td><td>Budgets</td><td>Financial Measurement Systems</td><td>Non Financial Measurement Systems</td><td>Hybrid Measurement Systems</td></tr>
<tr><th colspan="7">Administrative Controls</th></tr>
<tr><td colspan="2">Governance Structure</td><td colspan="3">Organisation Structure</td><td colspan="2">Policies and Procedures</td></tr>
</table>

Exhibit 2: Management control system package (Malmi & Brown, 2008)

Cultural control is a contextual frame for other controls. Cultural control is slow to change, because of organisational culture is the set of values, beliefs and social norms which tend to be shared by its members and, in turn, influence their thoughts and actions (Flamholts, 1983, cited by Malmi & Brown, 2008). Cultural controls are created in social system by people and with attempt to control each other's behaviour (Green & Welsh, 1988). Still, people do not necessarily recognise it themselves. Malmi & Brown (2008) divide cultural controls into value-based controls, symbol-based controls, and clan controls. Value-based controls are presented by Simons (1995) as belief systems and that will be further discussed in section 2.1.2. Concept of values is a combination of values that people own and in organisations are learned by socialising. At the end organisational values can differ from personal values (Malmi & Brown, 2008). Symbolic-based controls are visible signs which can include codes for specific purpose, for example work place design for a culture of communication or dress codes for presenting professionalism. Cultural controls can include subcultures or micro-cultures or individual groups that can be labelled as clans (Malmi & Brown, 2008). Clans can be formed even though people work for the same purpose. This can be due to established boundaries or based on profession like accountants and lawyers (Malmi & Brown, 2008). Values and beliefs can be communicated through the ceremonies and rituals (Malmi & Brown, 2008). Ceremonies and rituals can be specified for clan controls.

Planning controls set goals to functional area as long range planning and also set the level of effort and behaviour which is expected as action planning. Therefore, planning control is about deciding future activities but also committing organisational members to the plans. In this way, company can align goals across the company. Time range being 12 months or less is defined as tactical planning and strategic planning is more than 12 months. Financial planning and different project have different variety of time range.

Cybernetic controls make a use of process for standardised measurements. Controls are meant for planning for acceptable levels of behaviour and evaluating performance against those plans (Malmi & Brown, 2008). Process includes performance standards, measuring performance and comparing performance to standards (Green & Welsh, 1988). Process shows the variance and gives signal what is different than expected. Cybernetic controls work as a control mechanism when there is a person accountable for the variance and person is able to modify the performance for corrective moves (Malmi & Brown, 2008). Malmi & Brown (2008) presented four basic cybernetic systems: Budgets, financial measurement, non-financial measurements and hybrid containing both financial and non- financial measurements.

Reward and compensation controls focus on motivating and increasing the performance of individuals and groups within the organisation (Malmi & Brown, 2008). Linking effort to the task can impact on performance in three ways (Malmi & Brown, 2008). Effort direction refers to the tasks individuals focus on, effort duration on how long individuals devote themselves to the task and effort intensity on the amount of attention individuals devote to the task. Reward and compensation controls are linked to other control methods and therefore, impacts of the control should be considered in alternative schemes to understand purposes (Malmi & Brown, 2008).

Administrative control can be characterised by organisation design and structure, governance structures within the firm, and the procedures and policies. Administrative controls are to specify processes and behaviour in the organisation. Governance structure is included in the administrative controls to ensure that all functions and organisation unit to co-ordinate. Therefore the variability of behaviour is reduced and predictability is eased. Organisational structure is a form of control which works through functional specialisation. (Malmi & Brown, 2008)

2.1.2 Levers of control

This chapter present Simon´s Levers of Control. Levers of Control are based on business strategy which is defined by how a company competes and positions itself to its competitors (Simons, 1995). In this way levers of control give attention to parts which enable implementation of the business strategy. To be successful in strategy implementation strategy has to be communicated well. It means that managers have to translate the strategic objectives into operational measures (Kaplan & Norton, 2008). That will enable to make a correct action in practical sense. Levels of control help managers during major challenges to overcome organisational inertia, structure and communicate performance expectations and understand new agenda (Simons, 1994).

Simons (1995) explain that the success of the strategy implementation is a balancing act of controlling. There are possibilities and restrictions created inside the company and also coming from outside, like personal ideologies and ways of behaving. Levers of control take three organisational dynamics into account, which reflect different facets of the company: Dynamics of creating value, dynamics of strategy making and dynamics of human behaviour (Simons, 1995).

First one means about balancing the opportunity and attention to create goods and services. Second one is about balancing between intended and emerging strategy. Both planned and emerged strategies are wanted and needed, because planning makes managers understand organisational operations and also enable learning during the process (Mintzberg, 1987, cited by Simons, 2000). Control systems balance the emergence to stay on a specific area. Third one managers use control to enforce positive human traits and overcome organisational blocks.

Levers of control include four control systems. Levers are used with different attention and as levers fit to the business plan (Simons, 2000). Interplay of these controls creates dynamics, which support the implementation of the strategy. Even though intended strategy is a basis for the control system, control is not only restricting unwanted behaviour in the company but also to highlight opportunities and to discover necessities which demand for change (Simons, 2000). As explained, they are used as a combination as MCS package in section 2.1.1.

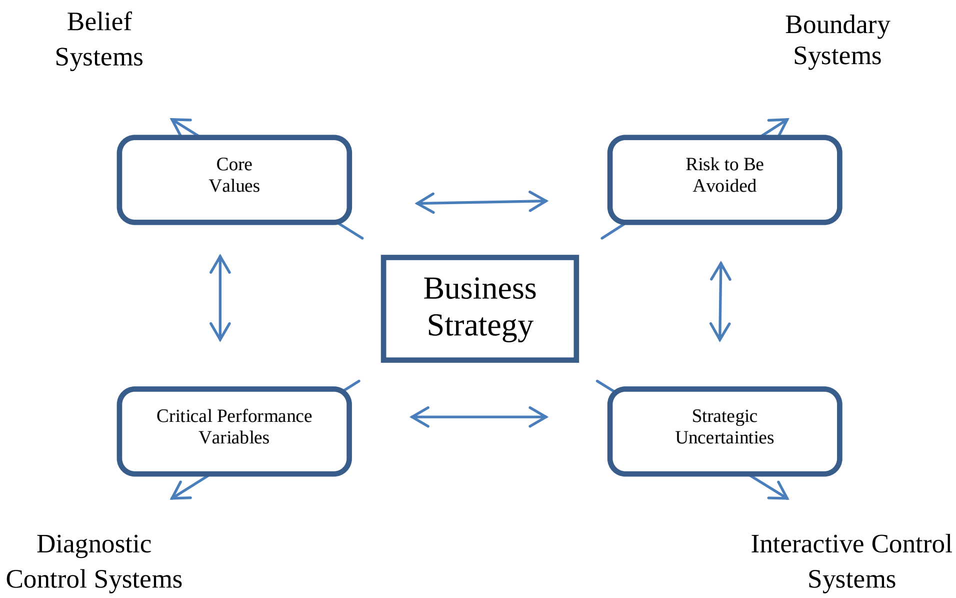

Exhibit 3: Simons´ levers of control (for example in Simons, 1995)

Levers of control have positive and negative forces. Interactive system and belief system are positive control systems, which motivate organisational participants to search creatively and expand opportunity space (Simons, 2000). Diagnostic control and boundary control systems are negative control systems, because they set constrains to search behaviour and allocate scarce attention (Simons, 2000).

Simons (1995) explain boundary systems and belief systems as "transforming unbounded opportunity space into a focused domain that organisational participants are encouraged to explore" (p.58) from the management control systems point of view. Boundary and belief systems are formal and informal information based routines and procedures which managers use to maintain or alter the patters in the organisational activities (Simons, 1995). Both systems may be established and reinforced through a set of communication channels (Marginson, 2002). Belief and boundary control system form a foundation for cybernetic control system (Simons, 2000).

Interactive control systems and diagnostic control systems use different ideologies with one another. In interactive systems manager are expected to react and communicate with subordinates and that is a contradiction to diagnostic system´s top-down monitoring (Simons, 1995). Therefore, management should figure out which ones of the control systems are used interactively, because of many of the measurements might be used already in diagnostic way. Some of the researches have stated, that intensive use of diagnostic control systems alone hinder the innovation (Bisbe & Otley, 2004). Hence, formal MCS act as facilitators of successful innovation if the interactive and diagnostic control systems are balanced (Bisbe & Otley, 2004). Interactive control systems are associated with subjective, contribution-based rewards. However, incentives should not be linked to interactive control systems. Contribution should be rewarded rather than results, otherwise rewards might be biases and the meaning of the interaction disappears (Simons, 1995).

Different levers

First system is *diagnostic control systems*. Simons defines diagnostic control systems as the formal information systems that managers use for monitor organisational outcomes and correct deviations from present standards of performance. Diagnostic control systems are to communicate critical performance variables. Critical performance variables are by definition those factors that must be achieved or implemented successfully for the intended strategy of the business to succeed. Therefore, managers should concentrate on setting goals, aligning performance measures, designing incentives, reviewing exception reports and following up significant exceptions (Simons, 2000). Strategy is communicated through these ones. Diagnostic control is traditionally top-down monitoring (Simons, 1995). Feedback systems are adequate to track performance (Simons, 2000). In that way, managers will get information to make a corrective move. Diagnostic control system is the same feedback system, which is defined as cybernetic controls in Malmi & Brown (2008).

Second system is *beliefs systems*. Belief systems innate desires of organisational participants to belong and contribute to purposive organisation (Simons, 1995). Belief systems are explicit systems of organisational definitions which include basic values, purpose and direction (Simons, 1995). Mission statement tells to what the company wants to become in the next years.

Third system is *strategic boundary systems*. Boundary control systems include established limitations to secure from business risks. As the belief system encourages for the opportunity seeking, boundary system limits behaviour to acceptable level. Boundary control systems ensure the resource usage to targeted area. Two types of boundaries are formally recognisable: Business conduct boundaries and strategy boundaries. Business boundaries can be codes of conduct, organisational belief systems and society law. Boundary system depends on the combination of trust, risk and uncertainty. (Simons, 1995)

Fourth system is *interactive control systems.* Interactive control systems focus organisational attention on strategy uncertainties. Managers discuss strategic uncertainties, which are related to changes in the market dynamics and they send the first incentive to identify uncertainties which might jeopardise the idea of the current strategy. Thereafter, managers expect subordinates to find answers and suggest accurate and simple action plans. Depending on the uncertainly level in the market, a focus point will be different. Technology level, structure of the market and time span determines on where to concentrate and how strong the use of the control system is. High uncertainty demands emerging technology, short term planning and accounting based measurements for solving value chain complexity. (Simons, 2000)

2.2 Organisational elements for Management Control System

Information from management control system (MCS) can be used in various ways. Simons (2000) explains the purpose according to the information. MCS would enable getting information for decision making, for control, for signalling and for education and learning. Some of the MCS can concentrate on specific information usage. MCS are intended to include measures of how well implementation proceeds. That gives a signal if strategy formation will be carried out as planned or if there are adjusting actions to be made. MCS are a process to educate and to learn from results. Control systems enable alike communication at different management levels, and therefore is agreed for an understanding of mutual mission.

When designing the MCS, the first question is what to control. Depending on the business companies can concentrate on input, process or output (Simons, 2000). Sometimes some of concentration points are given. For example in hospital doctors and nurses have certain education and therefore, a degree is the most important requirement for working in that position. That is an example of input resources. In this case, input is a standard which cannot be changed. Therefore, control should be in actual performance and the outcome at the end. Manufacturing companies are typically concentrated on process control. Efficient, streamlined process assures a standard approach to perform.

Managers in knowledge intensive companies are expecting a certain kind of output, which should be on the standard level. In this situation, control will be on output or on the process, which leads to a specific output.

Growth

Simons (1995) explains that there is a different attention to control systems when it comes to company growth. Growth phases require monitoring of different areas as the challenges occur and concentration points change. And therefore, there is a need for different adaptation in organising.

Simons (2000) explains how expanding growth affect company´s control improvements. When a company grows, functional work units are to be separated as cost centers and have their own specialisation. Functional specialisation demands for profit plans and diagnostic control systems to coordinate. Along the way, functions are facing a decreasing creativity level due to narrow specialisation and responding to market expectations seems even harder. While growing company structure has intendants to form into functional speciality and then after as market-based profit center (Simons, 2000). Market based profit centers are coordinated by belief systems and strategic boundary systems. In this way, companies spread their views for extended performance. Diagnostic control systems are still to set standards for required performance level.

Levers of control systems are introduced according to demand for control in growth phases in section 2.1.2. First diagnostic control systems are presented in a company following by belief systems, strategic boundary systems and interactive control systems. Malmi & Brown (2008) did not explain the sequence of control system usage, because elements of control package do not change, but the weight for different systems changes according to company needs.

Therefore, distinction between the control systems is only on how managers use elements (Simons, 2000). Marginson (2002) discovered that it not so much about specifics of how each MCS component work, but how managers interpret its use strategically. Kaplan & Norton (2008) explain that managers continually monitor and learn not only from internal results, but from external data on competitors and the business environment. In this way managers will see if the strategy is successful and if assumptions are correct in a first place to compete in this industry .Jermias & Gani's (2004) research deals with contingent fit of business strategy, organisational configurations, management accounting systems, and business unit effectiveness to explain performance level. Control system is included in organisational configuration among degree of centralisation. They explain that organisational configuration and management accounting systems should be associated with a strategic choice with a particular manner. In this way contingency fit has a positive effect on performance. At the end, they explained also that no systems are universally appropriate to all organisations and to all circumstances (p.196).

The level of controlling also leads managers with its choices. Simons (2000) lists four criteria which should be considered before setting controls. First, he addresses technical feasibility of monitoring and measurement. Control should be available in the current systems or at least large additional investment should be avoided. System should provide accurate measurements in practice. The best way would be connecting measurement system to the process and make a use of the information that is already created. That leads to a second point. Second, understanding of the cause-and-effect relationships among strategic objectives helps also to interpret measured controls. Specific controls lead to desired outcomes. That works in both ways in good and in bad, and gives managers what they are expected to have, but on the other hand target is to be reached at any cost. Third, the cost of gathering information is pointed out. Cost includes two sides: cost of gathering the information and opportunity cost of not collecting some information (Simons, 2000). That is why managers have analysed which information should be generated with a relative cost. Fourth, a criterion is a desired level of innovation. Control decreases innovative thinking, because employees will do what is measured. If the measurement system is highly strict, employees are not given any other choice but to follow the rules. Limiting innovation means exact procedure and standardisation (Simons, 2000). High level of control suits well for industrial companies, when machines are doing most of the job. The efficiency factor lies in organising the process in accordance. When designing performance controls these criteria help to picture what is essential for the company. In this way managers can also communicate company priorities and targets to everyone.

Roles

Marginson´s (2002) study explains that managerial perceptions of Management Control System (MCS) are a crucial factor in determining the effects that MCS may have on managers' strategic activities. Managers show by their actions which parts of the MCS are important and the decision should be narrowed down to less interpretative prioritising at the employee level. Also Tessier & Otley (2012) revised Simons's Levers of control by including managerial intentions around the objectives of control. Managers can build control systems by balancing rewards and punishments, enabling and controlling and diagnostic and interactive behaviours. In this way, managerial intentions and decisions are highly important for MCS.

Simons (1995) explains the roles for MCS. He characterise different tasks for managers and staff groups. Managers are senior managers and staff groups are operational managers. The idea is to have a manager to supervise and coordinate tasks. Manager will communicate and make decisions. Staff groups design and maintain the systems, interpret the data and ensure the integrity and reliability of the data and at the end prepare reports for the manager's use (Simons, 1995). Staff groups are explained to be gatekeepers for activities from operating point of view. This enables managers to get the information of how staff groups see the intended strategy and address issues if staff groups are going to a wrong direction. This is performance management in which managers performing in order to reach predefined goals (Lohman et al, 2004).

Wouters & Wilderom (2008) add that middle managers themselves needed to be fully involved in the development process of new measurements. Hence, it would be easy for them to actually generate reports (p.503). That would also create enabling performance measurement system (PMS). From the management side, enabling PMS is about monitoring whether given objectives have been achieved (Wouters & Wilderom, 2008). From employees´ side enabling PMS supports the employees to assess their own work (Jönsson & Grönlund, 1988). Simons (1995) adds that by continuing confidence from managers, staff groups used their ability to alter the direction of the business. Enabling PMS will be further explained in section 2.4.

2.3 Planning Implementation

Marginson´s (2002) data from the exploratory study confirms the growing use of a range of MCS to get strategy implementation controlled as Simons (1995) suggested. This section is about characters of a management control system (MCS) implementation. This shows from Kaplan & Norton´s (2008) closed-loop management system how MCS can be created. Section is about setting and making use of MCS.

Performance measurement systems (PMS) idea is “that managers perform in order to reach predefined goals that are derived from the company´s strategic objectives” (Lohman et al, 2004). Wouters & Wilderom (2008) add a point that personnel can be included in PMS by keeping enabling aspects in mind. It means that employees can assess how things are going, identify problems, prioritise issues, develop ideas for improvement, engineer solutions for concrete problems, or make decisions for their own purposes (by Jönsson & Grönlund, 1988 p.2).

Both Lohman et al (2004) and Wouters & Wilderom (2008) pointed out ways to develop a system. In that way methods would create a basis for MCS. Wouters & Wilderom (2008) pointed out five ways to translate strategy into concrete goals and catch the relevant characters of operational processes. First, PMS should “reflect to firm’s strategic objectives and subsequent break-down of those objectives to more specific objectives at lower managerial levels” (p.493). Lohman et al (2004) tell that this could be done with straight forward methods, by asking directly, or discussing by collecting requirements from meetings or interviews. Second, managers ‘‘give a notice if the performance levels are below targets” (Wouters & Wilderom, 2008). Third, PMS includes an “ability to ‘‘drill-down’’ and get more details when needed” (Wouters & Wilderom, 2008). Lohman et al (2004) suggest building initial requirements into the system and further discussion and changing them. Fourth, PMS aims for “transparency, consistency, and uniformity regarding definitions of performance measures, presentation formats, etc” (Wouters & Wilderom, 2008). In this way by using planning methods, critical success factors are put into measures (Lohman et al, 2004). Fifth, PMS is a part of united information system which contains all data and reports (Wouters & Wilderom, 2008). Lohman et al (2004) recommend the same to enable use of a single system.

This is described as enabling Performance measurement systems by Wouters & Wilderom (2008). Lohman et al (2004) emphasise co-ordination effort on the performance measurement system on the third point. In that way, PMS creates focus and a basis for performance evaluation. Kaplan & Norton (2008) suggest dividing meetings into three types with different discussion topics. In this way managers would keep the focus on a strategy implementation, strategy adaptation and on making use of the enabling PMS. First, operational meetings would focus on identifying and solving operational problems while the goal is to response to short-term problems. Second, strategy reviews would deal with reviewing strategy map and balanced scorecard. This meeting will focus on strategy implementation. Third, strategy testing and adapting meeting includes analyses for profitability and for competitiveness. These three meetings should be separated to keep the focus and to include people who are involved and responsible for the activities.

Transparency is valuable aspect for the enabling performance-measurement system, because in that way everyone knows where company is heading. Wouters & Wilderom (2008) mean by internal transparency *"*that users have a good understanding of the logic of a system's internal function and they have information on its status". Transparency allows everyone in the company to know where the company is heading at and hence everyone will act in accordance. Sandelin (2008) argued the same importance for the success of MCS. In that way, managers are not the only ones to further process the system. Rather the personnel are also actively engaged in measurement systems, like it is explained in section 2.2 about managers´ roles. Enabling PMS is made possible by three aspects: Performance is based on current experience, allowing experimentation with professional attitude and devotion. To keep these in mind, staff groups' knowledge (by Simons, 1995) is in essential positions to recognise and control.

In this way, PMS is attached to how and what people think in the company. De Haas & Algera (2002) explain an importance of linking the design of MCS to peoples' mental models. People tend to look for information that confirms rather than refutes their view of the world. Without convergence people look for information from other sources. Therefore, information is only relevant if it fits within existing mental models otherwise it might be disregarded (De Haas & Algera, 2002).

Development can have different aims. In development tracks can be divided into two: Exploitation and exploration. Exploitation means that company integrates and builds upon its current competences while simultaneously developing fundamentally new capabilities (Benner & Tushman, 2003). Exploration is more challenging to define. Gupta et al (2006) could not explain whether exploration refers solely to the use of past knowledge or whether it also refers to the pursuit and acquisition of new knowledge (p. 1). From a company perspective, exploitation means that company has ability to increase efficiency and exploration that to be innovative. The balance with exploitation and exploration should be directed to certain team in a company (Benner & Tushman, 2003). Smaller groups would be entitled to experience their ideas and work separate from others. Exploitation groups would be larger groups, which succeed by reducing variability and maximising efficiency and control and by associating tight coordination with process management efforts (p.10). Still, balance does not give explanation for control mechanisms, but it should be considered. From the strategy perspective exploitation can be described as evolutionary strategy, where little steps are taken to adapt the strategy. Exploration can be described as revolutionary strategy change, where radical changes are made in every organisational matter and no old ways of behaving are allowed (connected to a case in Simons, 1994). The first is incremental growth and the second is radical organisational (Benner & Tushman, 2003).

2.4 Experience comparison

It is not unusual to fail in succeeding in the strategy targets. Kaplan & Norton (2008) explain that during the last 25 years 60 to 80 per cent of the target measures have not been reached (p.64). Aim of the management control system (MCS) is to explain how strategy is translated into concrete goals and how MCS catch the relevant characters of operational processes (Lohman et al, 2004). I will illustrate some shortfalls and challenges, which companies might face in setting MCS and what consequences these might have for company performance.

Empirical research has shown that by using MCS many companies come across communicational issues, because MCS are not set in a clear enough way (as described by Kaplan & Norton, 2008 and Marginson, 2002). Kaplan & Norton (1996) explained one example where mission statement is stated in such a way that people interpret the statement in very different ways. For example a term 'targeted costumers' is not further defined. Therefore employees decided from their point of view, which the targeted costumers are. Kaplan & Norton (2000) explain also that approximately three-quarters of executive teams do not have consensus about their value position even though a clear definition is the single most important step in developing a strategy (p.6). Therefore setting of management control system will be problematic from the beginning, because the aim is unclear.

Gond et al (2012) explain an importance of integrating mechanisms in the company. Control systems should be used in parallel to enable integrated and dynamic uses of control systems (Gond et al, 2012). Their research is to integrate sustainability accounting system to regular systems. Control system should not create additional work, rather the information should be collectable from the current systems. System gathers information and therefore could be analysed together. Many other researcher also emphasise this heavily (including Lohman et al, 2004, Simons, 2000 and Wouters & Wilderom, 2008).

Key Performance Indicators (KPIs) are to set standards for performance and in that way to give signals for how successful performance has been so far (Marginson, 2002). Marginson (2002) explain one case in which KPIs are assigned but indicators do not appear to have an effect. As company set about 20 KPIs, there is no time to follow all of them. Therefore, some of the KPIs are discussed more frequently and others are rarely raised for discussion. Top managers explain that there is a constant need for prioritising issues. Therefore, managers send orders to the rest of the organisation which KPIs really indicate current areas of importance. This has created considerable tension within the process of strategy development. This shows that simultaneous emphasis can create a bias for decision making and because of a lack of concentrated focus, standards should be set for key areas by minimum amount (Marginson, 2002).

If the management control system does not work well, Merchant & Van Der Stede (2007) explain that it can have severe consequences. They mention that company might suffer loss or impairment of assets, deficient revenues, excessive costs, inaccurate records and reports. On the side it can lead to poor decisions, legal sanctions or business interruptions (Merchant & Van Der Stede, 2007). And on the other, hand many times

MCS are a basis for reward system. Therefore incorrect usage of MCS might impact incentives for performance.

Schaffer (2010) explains about setting demands and what kind of behavioural traps managers fall into, when stating expectations. These can also be applied for KPIs. Schaffer (2010) lists seven traps which lead to problematic situations to achieve the ultimate goal.

First trap is, that managers are setting too many goals for the mission. Therefore few goals should be clear and simple. Everything does not have to be stated by goals. The goals tell that what is wanted at the end. As it is explained earlier, showing the way for the main goal will make people not only focused on one aim, but also creative on finding the way. Many goals are usually attached to each other and even controversial. Multiple goals can be replaced by, for example, organisational culture.

Second trap is, not requiring a plan for how and when goals will be achieved. A specific plan would assure everyone in a company, that a goal has to be reached eventually and that there is deadline for it. It is universally understood that people tend to work better and more efficiently when they have some pressure to finish the work. Managers should address that goal will not be reach by continuing working as until now. Everyone should understand that the goal is set to make a change in their usual working behaviour. Schaffer says, that plan makes the goal more credible. In that way managers would show that what kind improvement they really want to see.

Third trap is, failing to push for significant improvement for fear that people are already overwhelmed. Schaffer (2010) explains that everyone is trapped in their ways of behaving and usually has a tunnel vision on their own work. One reason for the tunnel vision is incentives set on the individual level. Schaffer (2010) illustrates that, pushing an improvement at the unit level, does not necessarily pay an overall improvement at the company level. A significant improvement would be achieved by coordinating actively across units. This is because the cause of the current problems tends to be a lack of cooperation, as Schaffer explains.

Fourth trap is, not clearly assigning people accountable for each key goal. This is really essential for not only planning well but to get it realised. A person accountable for a goal tend to be more active finding a solution, because this person´s action will be measured according the success of the task. Accountability encourages people to pursuit for overall goals (Schaffer, 2010).

Fifth trap is, signalling an unspoken “if you possibly can” at the end of a statement for expectations. This falls to same reasons as third trap. Demands are not stated clearly. Success of the company would be secondary in this way of thinking. Of course individual contribution will ensure the overall success, but common goal should be the main aim for everyone.

Sixth trap is, accepting reverse assignment (“Sure, boss, I can get it done if you will see to it that..”). Schaffer (2010) says that this statement shows the attempt to resist the change. This might lead to a point when people will not follow the rules and goal is not what people are trying to achieve.

Seventh trap is, that stating goals in the way that goals may not be definable or measurable. If the achievement level of goal can be tested, it makes goals usually something more real to people. Nondescript goals do not motivate, because the results cannot be seen at the end. Neither managers nor employees will realise that what is the outcome.

2.5 Tools: Balanced Scorecard and Key Performance indicators

Strategy plan is a visual representation of a company's critical objectives and the crucial relationships among them that drive organisational performance (Kaplan & Norton, 2000). Strategic plan can be visualised in strategy map, Balance scorecard and StratEx (Strategy-to-Execution). I will concentrate on Balance Scorecard (BSC). However implementing and designing a specific strategic plan for a company is left out of this research. Rather I will concentrate on what kinds of implications there might be for a good use of management control system.

BSC is a performance management tool to assist a company in translating its targeted and mission into strategic actions (Kaplan and Norton, 2000). Strategic objectives are linked to operational improvements processes that ultimately deliver strategy objectives (Kaplan & Norton, 2008). In this way long-term strategic target will be introduced in short-term operational tasks leading to the strategic goal at the end. BSC includes non-financial and financial measures. Financial measurements alone do not provide enough information from the operations. Kaplan & Norton (1992) argue that nowadays skills and competences play an important role and these are hard to measure with financial mechanisms. BSC is created by a process for cause and effect -relationships. Process management techniques stabilise and rationalise organisational routines (Benner & Tushman, 2003) to focus on strategy objectives. Routines establish a focus on easily available efficiency and customer satisfaction measures (Benner & Tushman, 2003).

BSC has four perspectives: financial, customer, internal, learning and growth. BSC shows cause-and-effect relationships with Key Performance Indicators (KPI) as a metric. According to Cardinaels & van Veen-Dirks (2010), earlier research explains that common measures for units dominate unique measurements for one unit in BSC metrics. That is a contradiction to basic idea of selecting performance metrics which people can influence themselves.

Cardinaels & van Veen-Dirks (2010) explain that managers review BSC metrics with different weights compared to same metrics in unformatted scorecards. In this way, more weight is given to categories which show consistently good or bad performance. Because unformatted scorecards leave measures unlabelled and are not in a particular order, it is cognitively more challenging to evaluate metrics (Cardinaels & van Veen-Dirks, 2010). On the other hand BSC will frame decision into certain context by putting KPIs into perspectives (Cardinaels & van Veen-Dirks, 2010).

Another result of Cardinaels & van Veen-Dirks's (2010) study is that weight evaluators are used more for financial categories and reviewers leave non-financial categories unaffected. Weight evaluators can be markings with + or -, or with traffic lights (red, yellow, green) to signal the importance.

Control system is about setting demands for everyone in the company to act in accordance. As an example, KPIs work in a same way. KPI´s mission is to indicate that how the current standing is to reach a goal. To enable this, goal should be set in a way that managers do not fall into these traps explained in section 2.4. When it comes to KPI, companies have to ask themselves what they want to measure and which are for their key importance. As it is known, people will perform in accordance to what is measured. The basic knowledge of KPIs is that the result is always as good as what is measured. The results follow the objects of the measurement (Wouters & Wilderom, 2008).

KPIs are set as a control mechanism but their job is also to guide people to a certain direction. KPIs are a set of standards focusing on those aspects in organisational performance that are the most critical for the current and future success of the organisation (Parmenter, 2010). KPIs are set to add relational perspective for Profit and Loss statement and balance sheet items. In this way, managers might get answers to how results are achieved, what the quality level is, and if the result has been good enough for the company and compared to other units or competitors.

KPIs are not only for reviewing but also to set goals. At the end, when it comes to rewards and measuring the results, KPIs are for comparison. KPIs work as incentives to perform. People will value the ways of behaving if it is in line with what is measured. As Marginson (2002) wants to point out, KPIs are to be set for key areas by minimum amount of indicators to remain focus.

There is a difference between result indicators and performance indicators. These indicators tell a different story and their concentration points are different in the timeline. Parmanter (2012) explain that result indicators tell what has happened until now and that result indicators (RI) signal how is the performance at this moment. RI tell what the outcome is. On the other hand, performance indicators concentrate on improving the performance in the future and tell what aspect is leading to a result.

Parmenter (2010) points out also that performance indicators can never be for monthly, quarterly or yearly use. KPIs are set for current or future oriented measurement. As a performance indicator, KPIs tell what action to take. For example ROCE (Return On Capital Employed) cannot be a KPI because it is a result of many activities under different managers. That would be a Key Result Indicator (KRI). Key performance indicators are used for applications like dashboard and result indicators in quarterly reports.

3 Subject of research: “Case Company”

3.1 Company presentation

Case Company wants to stay unknown but has given a permission to use the material from the interviews. Research is made as an example from the real estate service sector. Detailed industry specific information is eliminated and the concentration is on the characters at the service providing company in a phase to achieve further growth. Research concentrates on understanding the needs of the service providing company and how Case Company could control the performance to achieve their strategic goal.

Case Company is a midsized limited company with 138 people in Finland. Case Company is demerged while previous owner gave up this field of business four years ago. Business is sold to a capital investor. This started a first phase for Case Company. Working as an independent company demands for creating an organisational identity and reputation for company name. Another separation is negotiating the deals with the clients again to change business under the company name. Case Company had to earn the position as a service provider and take part on price competitions.

Currently Case Company is a second phase after the demerger. The second phase includes a strategic change of gaining more market share, and implementation of the strategy has started one year ago. The second phase includes clarifying strategy in a systematic way and enabling operational expansion to support the growth. Currently there is a need for direction at operational level to make the objectives of the second phase possible. A need for direction has emerged from different reasons. These reasons will be dealt later in chapter 4 from different perspectives.

Case Company aims for the top position in the Finnish market. A young company had experienced rapid growth in a few years and currently the target level is even higher: to quadruple its size in revenue during the next four years. Case Company considers itself as a relative price leader with an equal quality level compared to key competitors. This research takes this new direction of the second phase into account.

During the two phases, Case Company´s key personnel have owned a significant part of the company’s shares. The existing management will continue to run the company. Management Team Members (MTM) and equity owners work closely on the current strategy and implementation is to be made in the next four years.

Organisational matrix (*Exhibit* 4) presents how Case Company is organised. Case Company has four business areas. Two main business areas provide similar service but service is targeted for different clients. The other two business areas are built to support the main business areas. During the last financial year Case Company generated 11.2 million Euros in revenue. Supporting business areas generate 25 per cent of the total revenue.

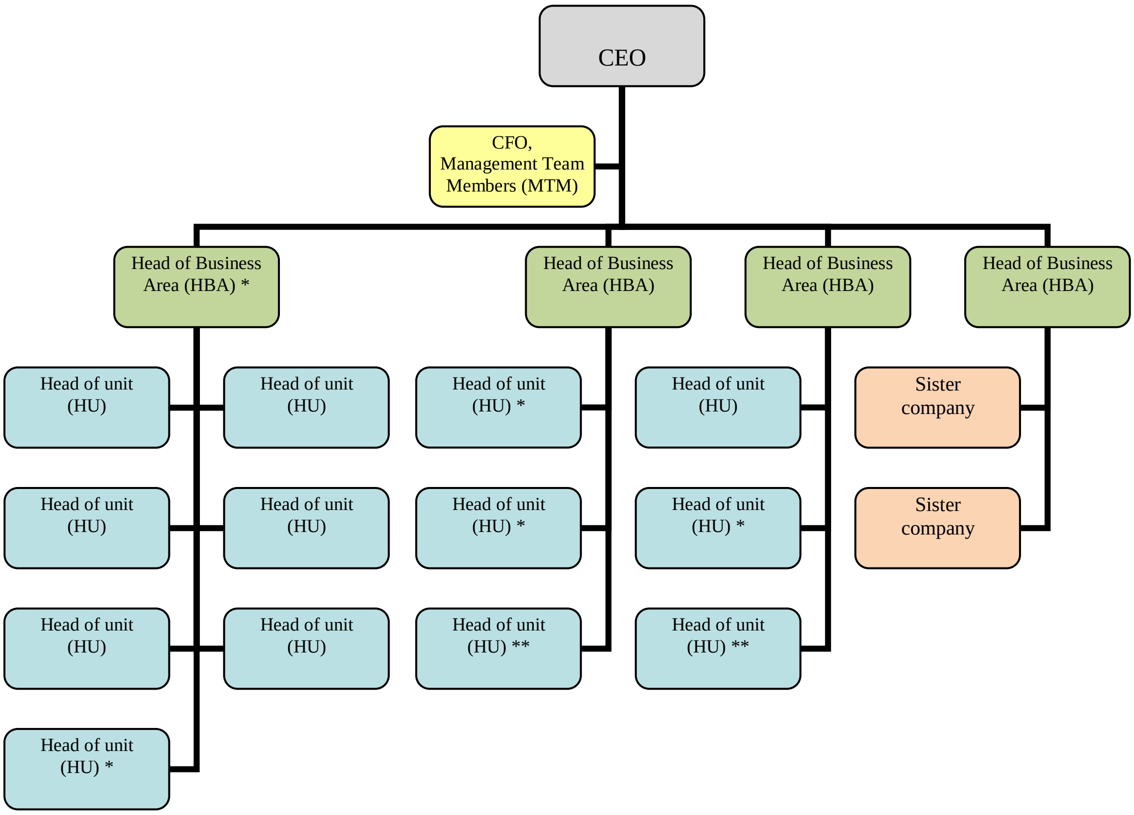

Exhibit 4: Case Company organisatio matrix

* Not interviewed, ** HU is the same person as HBA

Currently, there are 138 people working for Case Company. The first Business Area has 86 people and each unit has about 12 people. The second Business Area has 28 people and the third Business Area has 14 people. The fourth Business Area includes sister companies, which are to be integrated partly into other Business Areas but partly business will remain as a separate Business Area.

Management team is formed by MTMs, CEO, people with administrative duties under CEO (in yellow) and Heads of Business Area (HBA). HBAs can be also Heads of Unit (HU). Their work can be charged from the clients and have responsibility of supervision. Additionally there are Client Responsible Managers (CRM) for every client. CRMs are not marked in the matrix, because CRMs are either HUs or HBAs. CRMs can be from any of the business area, except from the last one. CRMs are in contact with a client and coordinate client related information across the Business Areas. CRMs work closely with MTMs to develop the business with current clients.

There is no industry wide way of doing business in this field. Case Company provides a core service house with supplementary services. The service house can include service products from every business area or just from one business area. Services can be designed according to client's needs and the service range is not standardised, rather client can purchase different pieces from the service product range. Nevertheless, adaptability is seen as strength in Case Company. Clients tend to be mainly institutional investors. Many times investors in the market outsource their non-core business, meaning what Case Company offers. Fragmented market would mean on the one hand that there are many clients to attract with a few assets, and on the other hand clients might be looking for a coherent whole of service product range to be outsourced. Clients are not loyal to one partner, but they are also willing to invest more in the relationship if appreciated. Case Company´s contracts are project based or agreements for a couple of years.

New strategic priorities refer to three points. *First* is about concentrating on creating a full in-house service. That can include developing new services for existing clients or deeper integration into clients´ operations. Currently Case Company offers different services according to client preferences. Existing service product range can be used and further processed for new clients. Employees look for leads to offer additional service for the client. That would be cross-sell services in Case Company. *Second* is about to take a look at client´s value chain. Currently Case Company concentrates on balancing client´s cost side with efficiency. The idea would be supportive in the whole value chain of the client. These two priorities will be checked by HUs and MTMs. *Third* is about exploring and deciding on the possible entries to similar or related business areas. This is only done by MTMs. MTMs look for new companies with strategic fit to be acquired. This gives a possibility to purchase the missing knowledge if required. In this research concentration is on the first two priorities and the third strategy priority is left out of the research area.

All of these strategy priorities are led by being in touch with the clients. First of all, employees will get to know what clients are expecting from Case Company and second of all, Case Company will not lose the client, because Case Company can modify the service according to client changing preferences. Negotiating regularly with current clients keeps the customer satisfaction high. Therefore the strategic change depends also on change in the client´s preferences in the near future. In this research strategy work will be evaluated as such. Only the means to make strategy implemented will be considered.

Current MCS has been designed for strategy in the first phase. As the strategy is changed, MCS has to be adjusted as well. Still the current MCS are used as a basis in this research.

3.2 Research methods

Empirical information for the research is gathered through interviews, by participating in meetings for management development projects and through review of company documents. Materials are given by Chief Financial Officer (CFO) or other Management Team Members (MTM).

To understand the current situation in Case Company, I have looked through written material. Nevertheless, the most of the Case Company information is gathered through interviews. Therefore, semi-structured interviews are conducted. First, MTMs are interviewed to understand the intentions of the strategy implementation and how the management control systems are at the moment. Second, Heads of Unit (HUs) are interviewed to understand how successful the implementation of the strategy has been so far at the operational level and how HUs have understood the strategy. In addition, HUs are asked to identify how the current management control system is working for them and which points are valuable for them to assure the strategy implementation. Interviews aim for recognising, which elements are not well recognised in management control system and how control is in a directional manner.

In this way, I will picture how MTMs and HUs feel about the control system at the moment and also what would be a good way to measure and to control the strategy implementation. Interviews are expected to reveal how managers at different levels feel about MCS and how it could be improved. Results are to be addressed in changes in the management control system components.

Interviews are been held in August 2012 and in October 2012. Each one of the managers is been interviewed individually. There are totally ten interview conducted in Case Company. Four of them are with MTMs and six with HUs. As it can be seen in the *Exhibit 4*, one of the HBAs and four of the HUs are left interviewed. This is because these managers are new people in Case Company or promoted or transferred to this position during summer 2012. Also representatives from sister companies are eliminated, because sister companies are newly acquired companies. Also to be noted, some of the HBAs are also working as HUs.

Interview questions are been given about 1.5 working days beforehand. Interviewees are asked to go through the questions beforehand so that interviewees know the theme areas. The questionnaire is the same for every interviewee. The questionnaire is in *appendix I* and additional document in *appendix II*. Each interview is been scheduled to last about two hours. Interviews are held jointly with CFO of Case Company. When designing the questionnaire, CFO included additional questions, which are on CFO´s interest for the company analysis. Nevertheless, these additional questions are not included in this research. Additional document is used in the interviews with HUs. All interviews are held in Finnish.

Question themes concentrate on process efficiency, current performance measurements, management control and company image. Answers are to be given from interviewees own perspective. As the interviewees are encouraged to talk freely, on the one hand, some of the questions are left with little notice and on the other hand, critical aspects are discussed in detail. Nevertheless, question sheet is gone through in every interview and answered are asked.

After the interviews with MTMs, CFO and I discussed ideas and thoughts which came to mind to improve management control system (MCS). At the same time, I am introduced to a new financial performance table for a monthly use. I am asked to use it for financial report template (introduced in section 4.5). We agreed to add an additional document for HUs' interviews (Shown in appendix II). Appendix II is about Profit and Loss statement with KPIs to be added. This paper is to be used in monthly financial review. At this moment, KPIs are not included in the report. CFO and I agreed to ask for the opinions of possible KPIs from the HUs. Possible KPIs are treated with high importance by MTMs.

HUs are allowed to suggest other KPIs which they felt important. Nevertheless, idea of additional information is considered with caution. Additional information employs working hours and that is treated as an unwanted issue. Additional information should be easy to gather to be able to make a use of the KPIs.

Planning and analysing the interviews

To conduct and to analyse the interviews three steps are taken (advised by Vaara et al, 2004 in same kind of research). First, before the interviews CFO and I look for specific themes to make the questionnaire. Themes should be attached to MCS and strategy implementation from different perspectives. Second, dominant discussions in the interviews are pointed out. There are some topics, which are discussed more than the others, and these topics are treated as dominant topic. Dominant topics are relevant for the empirical part of this research to address the challenging issues in the current MCS. Third, to understand how these topics are utilised, they are compared to practices employed currently in the control system. In this way, the changes can be identified for components in management control system.

Interviewees are asked to go through the questionnaire beforehand and to describe thoughts, which come to their minds. In the beginning, it is explained that questionnaire is only directive and discursive conversation on current or last incidents is appropriate. Theme interviews are encouraged to tell that what kinds of events have led to today´s situation and how interviewees feel about the situation today. This uncovers the roots and linkages of the control systems and shows the various kinds of cultural, historical and ideological elements have involved (Vaara et al, 2004: p. 4).

The purpose is to find key themes for MCS and interviewees' opinions of the shortcomings in current situation. In this way, interviewees elaborate on subject that they themselves bring up (Vaara et al, 2004). Even though CFO and I are new people to every interviewee to talk on this matter, after telling our motivation, Heads of Unit

(HU) talk freely and in a relaxed way. Vaara et al (2004) refer this phenomenon to ‘shop talk’ where “interviewees are fairly relaxed, talkative, and willing to express their own opinions and concerns” (p.9).

Notes from the MTMs’ interviews are written by me during the interview. To complete the notes interviews are transcribed and organised according to the questions right after the interview. Thereafter, notes are sent to CFO for inspection and additional notes. HU interviews are recorded. Transcription is made by listening the interviews once again. Only some parts of the interviews are transcript word by word. These parts are used in this research.

4 Management control system in Case Company

Currently Case Company is in its second phase of its timeline. Case Company is to make significant changes in the performance to reach its target to quadruple its size in revenues. The second phase means that Case Company has adjusted the strategy to reach its target. New strategy is identified with three priorities, and two of the priorities are to be considered in this research. Priorities are about developing and further processing current core services range and supplementary services. The third priority is left out of this research, because it deals with acquiring companies with strategic fit.

To be successful Case Company has noticed that it lacks a break-down of financial targets in operational KPIs with clear accountabilities implemented to ensure target fulfilment (Business plan). To improve control measures for supporting the strategy execution, current practises within Case Company are evaluated. First, Management Team Members (MTMs) are interviewed to understand how the intentions of the strategy implementation are. Second, interviews with Heads of Unit (HUs) are conducted to understand how successful the implemented strategy has been so far and how HUs have understood the strategy. In this way, it can be pictured how control is seen at lower management levels of the organisation and how effective control system is. In this way, I will picture how MTMs use the control and how HUs feel about the control system at this moment.

From the section 2.1, I choose Malmi and Brown´s Management control system (MCS) as a framework to picture MCS in Case Company. MCS form of five control systems components which are highly connected with one another. As it is explained, components are treated with different emphasis by different companies. Therefore, possible new emphasis for second phase is considered in Case Company.

In this chapter, MCS are presented by subjects. Subjects are organisational development and control, management and strategy, and financial reporting and Key Performance Indicators (KPIs). Every section presents the situation from three aspects in Case Company. First of all, I will describe how Case Company would like to change the MCS. Second of all, I will describe how the current situation is at Case Company and what kinds of development areas are identified in the interviews and conversations with Chief Financial Officer (CFO). Third of all, I will picture possible solutions for the dominant aspects of development. Solutions are jointly agreed with the CFO or introduced from the academic research.

As three subjects are presented and evaluated, I will summarise the MCS components in Case Company. In section 4.5 I will introduce a financial report template, which helps to support the strategy execution in Case Company. Financial report template will be used at every management level and in this research, it is set for HUs. Financial report template concentrates on financial control measures as cybernetic control systems are an important part in control systems (Malmi & Brown, 2008). Nevertheless, every component of the MCS will be evaluated and studied to understand the changing emphasis for control.

4.1 Organisational Development and Control

Case Company is under major changes at the moment in the organisational matter. Change includes organisational reorganising which will bring about a challenge for management control. Therefore, performance development is an opportunity and control systems will help personnel to act for this mutual aim and execute the plan as guided. One of the strategic priorities is targeted to Management Team Members (MTMs), which concentrate on corporate acquisitions and acquiring new clients. Two of the strategic priorities concentrate on organic growth. Organic growth is to be reached by fulfilling specific initiatives at the business area level. MTMs identify and assign initiative plans. Each initiative plan has a person accountable for carrying it out and another person is assigned as deputy. Initiative plan has a predetermined deadline and the realisation of the initiative is controlled by board members.

Initiatives are agreed at the company level, while MTMs have formed the new strategy. A breakdown of the initiatives is done recently. Now every MTM and Head of Unit (HU) know that what is expected from each of them. To process further the initiative breakdown, deputy person could be assigned as a controller to ensure that the assignment is carried out as planned. And then, controller would be someone in the company. This would delegate the control and contribute more people to make team work for the mutual target. Furthermore, this advised processing sets clear accountabilities for realisation and control.

Process setting for responsibility sharing

As company cannot be managed the same way regardless the size, management style has to be readjusted. CFO notes that emergent operations have made the current organising really inflexible. Therefore, there is a lot of pressure to design a new way of managing. Nevertheless, management team has not agreed a clear way of future control mechanism yet, CFO noted. Currently management has adjusted the operations to support the everyday work. Case Company has survived the everyday work with small operational adjustments, but it leads to a fact that managers at the operational level are in the middle of a complex reorganising. Control is centralised and organisational matrix is flat. HUs lack autonomy, because there is no well-functioning control system to allow it. This dilemma is pointed out almost in every interview with the HUs. Interviews reveal the frustration and giving up mentality. HUs are of an opinion that HUs are not obligated to develop and to perform as they should in their own work. *"I have to create a prerequisite for success for my employees and I do not get answers for how this case should be solved in here (Case Company) (HU 4)."* Managing can be organised by process setting and creating an environment around the process which supports the growth. In the following paragraphs I will present solutions for process setting. As Benner & Tushman (2003) point out, process management techniques stabilise and rationalise organisational routines to focus on strategy objectives. This would be the aim with Case Company.

CFO points out that the responsibility is to be shared at operational level. At this moment, HUs are expected to contribute to forecasting the revenues and to fill in various reports: Risk analysis of clients, report of reclamations, report of contracted based revenue changes with the clients and verbal performance analysis of the unit. One of the HUs has made a checklist of all the assignments for HUs. Other HUs agreed the same tasks, but they do not use the most of the reports regularly. Still, performance of the unit will be discussed with MTMs in a monthly meeting.

But in CFO's opinion monthly meeting is not sufficient way to monitor unit's performance and CFO wants to organise it in another way. Full responsibility requires identifying processes which will support the autonomy. Process guidelines will facilitate control and delegation and therefore, give responsibility for HUs. Processes will be built with certain limits and exceeding the limit will automatically bring a new process. In that way, there will be a continuum of processes. This would be the basis for control at operational level. As Wouters & Wilderom (2008) explains that in this way strategic objective can be broken down to specific objectives at the operational level. Objectives include performance levels to a right metrics. And these objectives are built into process guidelines. At the same time, monitoring and target setting will be easier to build.

Currently the level of administrative controls (by Malmi & Brown, 2008) is low. Previously administrative controls have been mainly on organisational structure which is formed in functional specialisation. Functional specialisation will be reinforced. Governance structure is marginal and MTMs are involved in operational activities. That has changed during the reorganising process and Case Company develops a stronger governance structure with specialised positions. As explained earlier, there is a strong need for setting more detailed processes to control activities and to enable flexible decision making. In this way, the variability of behaviour is reduced and predictability is eased (Malmi & Brown, 2008). Routines establish a focus on easily available efficiency and customer satisfaction measures (Benner & Tushman, 2003). Therefore, policies and procedures are highly expected to be created. Based on these discoveries, administrative controls will be strengthened and set accordingly to enable sharing responsibility now and in the future.

Emphasis of the process

Control level should be in balance: to enable freedom and strict unwanted behaviour, both in the individual and at the organisational level. Business is really sensitive in this field and reputation is attached to individuals. Hence, it is also highly connected to company name. The interviews revealed the sensitivity at Case Company: *"People can leave the company if the working load is too big and they cannot perform as well as they wish… it is not about money, losing one's reputation is much worse (HU 5)."* This would also support the idea of standardised processes to a certain level. In that way, processes would enable experienced employees to have the freedom to adjust in the specified frames and junior employees to have specific guidelines that they can turn to (CFO).

Cultural controls (by Malmi & Brown, 2008) are highly attached to satisfying the needs of a client. As the service is provided as a team, the coordination between functions is important. Control system is attached for coordination to deliver a complete package of services. Case Company has strong behavioural tendency for professionalism. As it is explained in chapter 3, employees work with entrepreneurial mind set. Client concentration is noted in the requirements to perform in a position. Case Company aims to reassert the value-based controls. Unifying processes would communicate that, what is wanted within Case Company and how to perform with a specific mind set. That would strengthen Case Company's beliefs. Case Company does not have specific symbolic-based controls to name. Clan controls are visible in Case Company. All except for one of the business areas have a really strong mindset and entrepreneurial attitude. Even though strong business areas are pretty similar, business area specific clans are formed in Case Company. Improving the other components of the MCS enables using cultural controls even more efficiently. Therefore, there will not be essential changes on cultural controls, rather a natural leap for using the current controls.

Referring to Simons (2000) what to control, Case Company has control over output. Attention is put on a service that clients receive at the end. Codes of acting are mainly based on rules determined by client. Therefore, basically the control is outside Case Company. However, rules from clients have become so powerful that different ideologies make a gap of easy information flow within Case Company. The fact that HUs had no companywide guideline to direct employees, client agreement is the principle of practises. *"There is no specific order that the concentrating should be on rules of a client, but this is done in practice (HU 1)."*As Case Company prefers to grow in current business fields, knowledge sharing is in a valuable position. Due to this fact, control would more beneficial to move towards the process. If the control concentration point is to shift to process, performance would be supported by Case Company specific protocol. The united protocol would be easier to improve further. That would also assure that every employee will have a good starting point to perform well at the individual level. On the other hand, clients expect the same. *"Clients expect us to give a standardised model for performing (HU 3)".* The protocol would be beneficial for Case Company and clients. That could improve the competition position of Case Company to standardise the performance to a high level, and client would know what kind of service to expect from Case Company.

Reorganisation should clarify the organisational behaviour. This would help employees to follow the strategy. Current understanding of the organising is not clear. *"Our* *process is not streamlined. New employees are in distress when it comes to learning the ways to operate (HU 3)".* This makes the MCS hard to notice and where to put emphasis if a formalisation of the processes is just to be implemented. "*It has been a rocky road during the last couple of years that I have been working in here (HU 4)"*. This HU refers to the same distress that employees are facing. After two years of working in Case Company HU 4 has finally a picture of how information is organised and how everything works or what does not work in Case Company.

Service range exploitation

Two of the new strategic priorities concentrate on service range exploitation to achieve the growth targets. *"Should we create new service products? No, because it demands resources and old service products sell well (HU 6)."* Other interviewees are with same opinion. The business field is not stable yet, and clients do not expect a specific service. Clients expect Case Company to give an example of a possible service. Therefore, the productisation of the service is not final. HUs and MTMs would rather emphasise the specialisation in-house and exploitation of the service products in that way. Exploitation can be directed to all service products and finding ways to use the service product beneficially. For example, following trends in service products should be considered if service products are available with current assets. Exploitation of core service product is to create innovative side service products and therefore, to increase the profitability with alternative service possibilities. Nevertheless, exploration is important, because the industry is still young.

As it is explained in section 2.4, it depends on the aims in the company what kind of combination of exploration and exploitation is desirable. Exploration and exploitation are not totally excluding with one another, but depends on the resources how much effort can be put for exploitation and for exploration. Case Company's concentration point will remain on exploitation at this moment.

To come back to developing services, currently employees develop new ways of satisfying clients' needs at the operational level and prepare a personalised solution for them. But this has caused problems on a company level. Case Company has not been able to bring this developed knowledge to everyone´s attention.

This lack of knowledge sharing is mentioned in the interviews of HUs. HUs work many times also as Client Responsible Managers (CRM), who coordinate across the units and are in contact with clients as service leader. Therefore, regular discussions with employees and CRMs would create a benchmarking atmosphere where best practises are discussed. *"We (Client Responsible Managers, CRM) are working side by side, but we do not see what the others are doing. CRMs do not notice similarities or differences compared to their own work. Can we combine some activities or copy good ways of managing? ... Way of doing things with one client can be a new and an improved way for working with another client. Therefore, we can and should make a use of the existing material and still at the same time invest in development (HU 3)".* In this way, developed solutions will not stay unnoticed and best practises will automatically appear to everyone´s attention.

MTM 2 point out that employees would not be confused with big and small dilemmas, because of the unorganised control. Best practise would establish a focus on easily available efficiency and customer satisfaction measures, as Benner & Tushman explain (2003). On the other hand, process would not be stagnated, as MTM 2 referred to last case. Client has insisted a serious discussion to readjust the service as client's demands have changed. Changes are discussed together with CRMs and then, improvements are implemented. By benchmarking and creating a process around it, Case Company would automatically improve the level of control for performance and assure the means of the control system.

4.2 Management and strategy

Until now, Chief Executive Officer (CEO) of Case Company has mainly managed operations. Management and decision making has been centralised to the CEO and the power has been in CEO´s hands both in organisational and at operational level. Case Company has come to the point where CEO has to delegate decision making and leadership responsibility. There are new members in the management team with different concentration areas and therefore, governance structure has changed. This is why Case Company is living a changing period to delegate the authority to other parties.

Case Company is challenged by lack of enough communication. Coordination and decision making has become slow and employees do not get answers to their important operational questions. Coordination has become so complex that it cannot be organised by one person, meaning CEO. This is mentioned as a current challenge in interviews with Heads of Unit (HU). Lack of communication means unclear responsibilities, lack of targets and processes.

Case Company´s target is communicated at the corporate level and targets are set for the business area. Still, management at the unit level is not specified. Every HU stated that clients are the ones that give a direction for performance. "*Because the unit has no target measures tightened to company performance, it means that it does not matter (HU 1)."* Currently operational guidelines are set based on a contract with a client. This leads to a fact that these control mechanism are from client´s point of view.

CFO explains that decision making is needed to transfer to lower level management. Interviews with Management Team Members (MTM) indicate also that responsibility should be delegated to HUs more. That would improve understanding of how strategy is implemented within a company and therefore, how activities should be measured and controlled. It would be not only at the management team level but also at the operational level of the organisation. Currently, HUs are responsible of resource allocation and hiring people for their team. Therefore, HUs have the best knowledge for the requirements that are needed for a new employee. As it is explained in section 4.1, responsibility is to be delegated through processes. Responsibilities will be restricted with process procedures.

Case Company uses reward and compensation controls (Malmi & Brown, 2008). Yearly bonus compensation is linked to the company´s performance as a prerequisite. Thereafter, bonus is allocated to units according to their achievements. Achievements will be measured once a year by predetermined metrics. Metrics are not used otherwise. "*The bonus system does not increase the effort to reach the bonus level. Employees cannot identify their share of the target… Bonus system should be built so that individuals will get a reward if they have made a good effort to reach a target even if group targets are not met… the amount of the reward is like pocket money and that is not encouraging (HU 3).* As this has not been encouraging, management team is planning a new reward system. The reward system will include metrics for every organisational level with different percentage points for every person in Case Company. The lower organisational level person works, the lower the level of the companywide contribution metrics are and the higher the share of the personal metrics.

Meetings for information sharing

Meetings with HUs and MTMs are seen irrelevant if meetings are for discussing all issues at the same time. MTM 2 reminds that the organising of the manager´s meetings should rather pressure all managers for debate and to challenge for continuous improvement. According to interviews with HBAs, currently meetings are waste of time, because the meetings are not concentrated. Meetings lack specific timetables and include too many topics. This is noted by HUs too. After conducting the interviews with HUs, meetings in Case Company are organised in a way, which allows only a specific amount of time for one subject. Organised timetable and specific topics would be also a meeting to catch up how current projects proceed. It is mentioned in the interviews that HUs require more attention to picture current situation. They would like to be asked for how previously discussed issues have proceeded and how issues have been solved.

Case Company could divide meetings to different kinds of meetings as Kaplan & Norton (2008) suggest. Operational meetings would focus on identifying and solving operational problems and goal is to response to short-term problems. Therefore, MTMs would offer financial reviews and guide HUs to focus on a specific topic in the operational meeting (Kaplan & Norton, 2008). To add strategy concentration and explaining objectives, MTMs could introduce some strategic themes from second meeting for discussion. Second meeting is about strategy reviews and focus on implementation of the strategy. Second meeting does not necessarily include operational managers, but some of the strategic aspects can be discussed with HUs, because the organisational matrix is flat.

Strategic objectives

Strategy has been put into financial targets at business area level. Heads of Business Area (HBA) understand what kind of profit margins are needed for their business area. HBAs have received initiatives to put business plan into practise. According to interviews with HUs, strategy has remained at the management team level, and strategy is not implemented outside of management team at the time of the interviews. Before the interviews, HUs had to look for information about the strategy once again. HUs could not memorise the business plan by heart. This indicates that HUs seem to have troubles to recognise the big picture of Case Company. One month after the interviews, CFO presents a detailed business plan with initiatives for HBAs and HUs. These initiatives are to execute at the operational level. As explained about the different meetings, strategic themes could be discussed and followed by initiatives at management meetings.

As strategy is not broken down to strategic objectives at the operational level directly after the formation of the strategy, HUs did not get a hold on it. Strategy's aim is only for growth, but *"there are no aims for operating, quality and personnel practices (HU 4)." "The only thing told to employees is that the company will grow (HU 5)".* This might breed frustration, because of unawareness and management´s unwillingness to share information. *"I have been wondering what our vision for the performance is, but I is told to forget that kind of thinking and do my job (HU 1)."* It reveals that the aim is not totally clear what MTMs expect and therefore, communication is not successful. That is why strategy remained as a tool for management, as *HU 1* stated. To solve this, it would be good to communicate unfinished plans and execute those. HUs have figured it out themselves how to guide employees. Some have concentrated on client satisfaction and others on managerial position. *"I emphasise the separate invoicing because I do not know what else (HU 4)."*

A lack operational guideline in strategy implementation brings up an issue with transparency. In Case Company it will be hard to cooperate well if there is no target communicated for the performance. Transparency has disappeared while the company has come across changes and activities have not been adjusted with any specific guidance yet. This is clearly recognised already in Case Company: Measurement of financial targets at operational level has not been set to ensure target fulfilment (Business Plan).

Present situation has showed that planning controls (by Malmi & Brown, 2008) focus on tactical performance. Control is for the end of financial year and the concentration is on near future actions. New services are tested really in a short period of time and testing of new services do not have timetable to finish a test period and to analyse the profitability. "*I am afraid that we will be lost with these different projects which are* *never finished. But now, the decision has been made to finish current projects and new ones are put on hold (MTM 3)".* Nevertheless, the concentration of forecasting revenue is for the next 18 months. This is done by HUs for contracted revenue and separate invoicing. MTMs estimate the new client revenue. This shows that currently Case Company has concentrated on ad hoc decisions, but strategic planning is to be kept in mind by monthly reviews of revenues.

CFO has created a process for budget setting for the HBAs. CFO is assigned to be responsible for planning, scheduling and follow up. Still, HBAs are accountable for fulfilling the targets at the end. CFO has created budget requirements for the next financial year. Budget instructions for resource allocation are set by companywide standards, while growth target for revenue and gross margin are business area specific.

Budget process is one example of the operational process, which has Case Company specific guidelines with strategic mind set. HBAs are entitled to set the target for their business area, because HBAs have the best knowledge. Still, they have not figured out ways to achieve the operational and strategic targets while they are accountable for the performance. CFO follows the overall picture and keeps HBAs accountable for the action which are shown in the financial statement. At the same time, they are accountable for CFO for making a use of the budget. MTM 1 also points out that united processes should be used in every unit to ensure an easy access to information.

4.3 Financial reporting and KPIs

Case Company´s current standing with financial figures is measured every month. First, Management Team Members (MTM) analyse the situation with board of directors and then with Heads of Unit (HU). Heads of Business Area (HBA) and HUs are asked to tell what has happened in their field and explain their contribution to differences in the variance analysis.

Allocation

Next result is allocated to units, but in a rough basis. Unit specific results are not accurate, because same people work for different teams and result is allocated to the permanent unit. But as HUs are not accountable for the result, interviews reveal that

HUs do not see the importance on getting the figures right. *"Unit specific financial report is just a paper which is given, but it is not used to anything (HU 1)."*Allocation is done for a discussion with MTMs.

Resources are allocated for unit, and revenues of a unit tell how much resources it has for spending. Therefore, client contracts set limits for needed resources and what kinds of people are needed, for example experts or secretaries. After allocation, no systematic formal control and monitoring takes place by MTMs. HUs are responsible for hiring enough people to perform. Balancing resources is hard, because of a lack of accurate profit and loss statement for a unit. HUs make assumptions of the correctness and try to get a good hunch for organising the resources in their unit. This aspect is clearly noted by the management team and they have realised a lack of continuality in the monitoring process. But until now, Case Company has settled for regular performance evaluation and profitability analysis at a company level. It has been enough until now.

Accountability

At the current stage, Case Company use cybernetic controls (from Malmi & Brown, 2008) for decision making, but not for control. There has not been a need for delegation at operational level. As it is explained, HBAs run the performance and HUs are not accountable, even though HUs should balance the resources. As explained in section 2.1.1, cybernetic controls become control system as they have a person accountable for the measures. At this moment cybernetic controls have been used for following sufficient speed of growth rather than setting control over the activities.

This arise problems for HUs´ decision making and also for HBAs for the accountability. Lack of accurate P & L statements can lead to wrong conclusions and to unnecessary assumptions. *"If this return of the unit is like this, I have to perform also a 100 per cent level of invoicing. We cannot afford to have a supervisor in this unit (HU 2)".*

Even though HUs are not formally accountable for the performance but still they feel the pressure for accountability. They have to give explanations for variance all together. However, information sharing is limited. "*To improve the performance control, accountability for the performance would suit well for me. Also managers should look after and ask how, for example, a developing case is proceeding (HU 4)".* Financial performance measurement system is expected to have a rate of operating profit. "*I do* *not know what the expected rate of operating profit is. Is x per cent enough? I make calculations and set the target for x per cent (HU 1)".* It is said in the interviews that "*if we are going to be accountable for performance of a unit we have be given all the cost items also (HU 1)".* As HUs do not get accurate profit and loss statement and they cannot be accountable for their actions. Still, HUs are seemingly responsible for performance, and HUs struggle with making right decisions. MTM 4 also emphasise that profit margins should be set for right levels. It is to be suggested that setting right margin levels could be done in cooperation with MTMs and HUs. MTM 4 points put that target levels should be adjusted to according to business areas.

There is a contradiction between allocating resources and not being accountable for the decisions. HUs cannot know if they make good decisions. And most of all, these decisions affect the whole performance of the unit and at the end, performance of the company.

Based on these arguments, responsibility could be transferred for HUs by requiring accurate reports from HBAs. If HUs will be entitled to follow unit specific profit and loss statements, HUs would be required to follow a detail process. The process would be the same kind of process as the budget setting. In this way, HUs would be able to check the accuracy of the report. This is supported by Wouters & Wilderom (2008), where they explain enabling performance management system (in section 2.4). This would make HUs involved in reporting and in that way, MTMs would know if HUs have understood the strategy objective well and MTMs can explain the elements which are left unnoticed. Until now, inaccurate goals and lack of transparency are spread to lower levels.

Strategy at unit level

Strategic aspect is not broken down into unit level in cybernetic controls either. *"When we aim for fast growth, it is not enough that only a couple of people know what we are going to do. The performance control has to be changed also (HU 5)."* At this moment, strategic objectives cannot be recognised. *"The strategic way becomes blurry when it gets outside the management team (HU 1)"*. On the other hand, HUs are not in charge for negotiating new deals and therefore, contract based revenue is given for the unit. Still, Management Team Members (MTM) should be interested in performance level of a unit to get feedback for future negotiations. Result of a unit will tell for MTMs, how successful MTMs have been for making the deals with clients and if the deal is profitable enough. Accurate profit and loss statement for the units are to be presented in the beginning of the next financial year as the reorganising of the organisational matrix is done. The matrix stays the same in business areas, but members in units are clarified.

Key performance indicators

As it is mentioned earlier, strategic objectives are not transferred into operational level. Therefore, there are no specific KPIs set for different business areas and neither for units in a monthly basis. It is only done at the company level and only used by board members and MTMs. Some measurements are set for reward system, but these KPIs are not used otherwise for reporting (as told in section 4.2).

HBAs are not asked to use any KPIs for performance measurement and neither HUs are. Still, every HBA and some of the HUs use performance indicators regularly to get information and to allocate resources. But still, every HU uses KPIs at some point. *"No one requires keeping a track of specific metrics. But I have had my own metrics from the very beginning (HU 1)."* KPIs are really similar whether set by HUs or HBAs. Possibly it is because HBAs are highly involved with the operations until now. Still, HBAs and HUs never discuss KPIs together in detail nor compare those.

Case Company´s weakness is that it does not have indicators for process, quality and change. Nevertheless, "the unofficial KPIs" used by HBAs and HUs are operational indicators, mainly for process and change. For example, utilisation rate of resources and the efficiency of the process are mentioned in all interviewees. On the other hand, HBAs want to break the indicators into component which form the final rate. And as HBAs are in charge for new deal negotiation, they need indicators for figuring out which are the cost drivers to produce the service.

HUs use indicators which are attached to operative metrics. Some of the KPIs are to coordinate and to follow the performance of the subordinates. Some KPIs are used because client has set them. These KPIs are used for client satisfaction purposes and these KPIs are loosely attached to Case Company's operative actions. HU 6 explains that one client has set about 20 KPIs which are important for the client. Only a few of these KPIs are relevant for Case Company, because Case Company can influence results of these KPIs. The concentration should be on Case Company performance which enables client to improve client's own KPIs.

HUs have identified some key issues which would help HUs to make decisions and to have control over actions. HUs would like to follow relational KPIs between financial (like turnover) and non-financial (like number of people). An example would be work load. That would tell if resources are used in an efficient way. To be noted these indicators can be only compared among the same business area, because the service is different. Nevertheless, KPIs are relevant in every business area. Still, HUs would like to compare some efficiency factors with other HUs and to check that how some units are more profitable than others and why the difference appears.

Interviews revealed a need for quality check for a service which is provided for clients. Quality measures will be challenging to translate into indicators as such. Still, quality indicators should be measured in elements, which lead to performance and in that way, attached to monthly KPIs. To exploit the service range for a client, services can be compared by amounts of provided services. Setting unit specific indicators are to decrease the boundaries for sharing and for learning from each other between the units. Together HBAs and HUs are with same opinion of piecing out the result to metrics which are important and to characterise key component for better performance. As KPIs are traditionally top-down controls (Simons, 1995), KPIs indicate the critical areas assigned by MTMs and KPIs restrict the performance to reach the goal.

Many of these can be used as performance indicators but many as result indicators. Because Case Company has monthly meetings with all operational managers, KPIs could be more result indicators rather than performance indicators. Leading indicators could be discussed verbally and analysed separately. As the data collection is done in a monthly basis and therefore, indicators would not meet the definition for performance indicators. As it is explained in section 2.5, performance indicators are for daily or weekly use (Parmenter, 2010). The main idea of these indicators is to measure and compare what has happened and how performance can be improved compared to other units.

Many of the KPIs are non-financial and therefore, it might be challenging to measure in numbers. When it comes to collecting the information, challenges will occur if the database is not set in the correct way (Dagan, 2007). It will not support easy access to collect the data. As KPIs should work as an indicator by its name, the collection of the information should not be the one where resources are spent.

4.4 Summary: Improvement ideas for MCS

As Case Company is to quadruple its size in revenues, the change demands for adjustment from the management control system (MCS). Current MCS use all of the components of Malmi & Brown's (2008) control framework. Strategic change includes attempts to provide wider service range for current clients and get deeper integration into clients´ operations, as two strategic priorities state.

To be successful in strategy implementation, based on the research I suggest giving more attention for controls in administrative, cybernetic and planning control systems. These control systems lack accurate strategic objectives. In other words, components in the MCS will have different emphasis and are adjusted to fit the strategy. Reward and compensation control is to be updated already by the management team. Cultural control systems are not given any additional attention. Next I will summarise usage of the components in the MCS in Case Company.

Administrative controls Management could emphasise the dominant organisational system and yet, create a protocol which is the basis for everyone. A protocol would enable new employees for easy access to understand how everything works. And on the other, a protocol would enable a preconception for the clients how the work is done in Case Company. Therefore, process setting of tactical guidelines would include short-term targets and would keep the strategic thinking in mind. Processes would set specific accountabilities, and on the other hand, enable autonomy and decision making at every management level. Currently, administrative controls are wished to have more order and discipline by the managers and protocols would strengthen managing.

Cultural controls Organisational culture in Case Company is client concentrated and it is highly linked to demanding personal performance level. Employees are working with own name, because the industry is so small. Therefore, professionalism is required. That does not eliminate the aspect of united way to work in Case Company. Organisational culture is highly linked to Case Company's values and therefore, organisational culture should be emphasised and shared for the new employees.

Planning controls Present situation shows that planning controls' focus is on tactical performance. This has become challenging, because Case Company aims for continuous, fast growth. Therefore, the concentration should be transferred to long-term planning with short-term action plans. Too tactical performance will keep the ultimate goal out of sight. Short-term planning is seen, for example, in new service product development. Possible new service products are given a chance to be tested in the market. Nevertheless, new service products are not given a specific timetable for testing period, profitability requirements or analysis of the possible market segment. Finally at the time of review, there should be an analysis to decide whether service product fits to the ultimate service product range and whether Case Company has abilities for introducing it formally. But as planning controls are highly attached to other controls, some actions are with tactical and other with strategic planning. Planning controls are specified in other control components.

Reward and compensation controls Reward and compensation controls are not working currently. The target is set into so high level of performance which is not encouraging in the first place. That will be changed by already made plans for the next financial year .

Cybernetic controls Currently Case Company uses cybernetic controls for decision making, but not for control. There has not been a need for overall control system. As it is explained, Heads of Business Area (HBU) run the performance and Heads of Unit (HU) are not accountable, even though HUs should balance the resources. As a consequence, there cannot be shared responsibility at operational level in Case Company, because it would not be monitored in any way. Neither targets are communicated to lower levels. Case Company has broken down initiatives from the business plan. In this way, Case Company can set people accountable for carrying it out. Adding initiatives to cybernetic controls would enable long-term target setting. Because target setting would include also operational and functional parts, everyone could identify their contribution in the company. Cybernetic controls can be put into full use by using the same method in budget setting as for HBAs. In that way, HUs would plan operations beforehand and would also get enough information for preparing it. On the other hand, Case Company could ensure the long-term goals. Therefore, HUs would be entrusted with unit performance.

From all of these MCS´s components, cybernetic control is chosen for even more concrete adaptation in Case Company. As cybernetic controls are important part of MCS (Malmi & Brown, 2008) and are adapted in companies in early stages (Simons, 1995), cybernetic controls seem as obvious control systems to take a look under organisational changes. Cybernetic control systems are also highly attached to other control systems. Therefore, monthly reviewed financial report is also modified. That will be introduced in the next section.

4.5 Improvement for Financial Report Template

Financial report template is to support the Management control system (MCS) in Case Company. Basic financial report template is used already in Case Company, but improvements are shown in variables in variance analysis and in performance measurements. These are to signal the strategic priorities. Additionally, financial report template will be used at every management level. Design of the financial report template is jointly discussed and decided with Chief Financial Officer (CFO). Thereafter, I will add additional elements to financial report template. These elements are for Case Company to consider, whether company wants to put them into operation.

In this research, performance measurement and Key Performance Indicator (KPI) design is done by prototyping. It is one of the methods that Lohman et al (2004) mention. In prototyping initial requirements are built into a system and the system is discussed with users. In prototyping the system is changed and fine-tuned after the first scratch. Initial requirements are created by discussing with CFO in Case Company, how financial report is reviewed each month. First scratch for financial report is created from the interviews with Management Team Members (MTM). Interviews are to find out the requirements for the united template, which reflects the strategy. Then Heads of Unit (HU) are asked to give their opinion of the first scratch. In this case, every manager in Case Company will use the financial report template in the future.

I will concentrate on cybernetic control systems as they are the first control systems of Levers of Control which are suggested as the company grows (diagnostic controls in Simons, 1995). Cybernetic control system is an important performance measurement method (for example Malmi & Brown, 2008). Financial report template is based on unit level, because operational metrics are needed in Case Company and operational metrics are essential for working MCS (Kaplan & Norton, 2008). The basis is for correct allocation of costs and revenue items at every organisational level. Allocation for the unit level should work in the beginning of the next financial year.

The financial report template is built on four elements and on KPI selection. Four elements and KPIs are used for signalling strategic objectives for every unit in Case Company. It does not matter who is looking at the template or from which unit, because the message is the same for everyone. Nevertheless, the template is customised for unit specific metrics. It provides a comprehensive picture of what has happened in the near past and where the performance is heading at now. The second and the fourth element signal how the unit proceeds in its performance. Financial report template includes strategic targets which are in targets for profit and loss items and in KPIs. In this way, the financial reporting is a unit specific control template with its own elements and it signals the overall strategy of the company. Furthermore, template is more than a profit and loss statement, because it will tell how the unit is doing with critical KPIs. As said earlier, profit and loss statement items in the financial report template are used already but the template is modified based on the interviews with Management Team Members (MTM) and Heads of Unit (HU). Financial report template is shown below.

Unit X (Business Area Y)

			Period results			Actuals YTD		
			July 2012	Budget July 2012	Change July 2011 %	YTD 2012	Budget YTD 2012	Change YTD 2011 %
Revenue	Seperate invoicing		xx	xx	%	xx	xx	%
	Contracted revenue		xx	xx	%	xx	xx	%
	Projects		xx	xx	%	xx	xx	%
Gross margin			xx	xx	%	xx	xx	%
Profit			xx	xx	%	xx	xx	%
Number of employees			xx					
Process (capasity)								
	Salaries and other personnel expenses / Revenue		KPI					
Efficiency								
	XXXXXXX	per unit	KPI					
		per person	KPI					
	XXXXXXX		KPI					
Clients (Possibilities)								
	XXXXXXX		KPI					
	Separate invoicing / Contracted revenue		KPI					
Employees								
	Absent days		KPI					

Exhibit 5: Financial control report for performance and Element 1

As a first element, framework has a united outlook. This outlook of the template will be used for every financial report at every level in Case Company. Everyone will know the preferences for the performance and how the result should be developed. Therefore, everyone will know what is needed for the performance level. It should not matter in which unit the person works when it comes to evaluation. The mind set and the way of showing data should be the same. Every unit will get its figures shown always in the same way. This helps comparing units if necessary.

As a second element, report shows strategic thinking. Report combines a picture from the near past and for future performance by indicators. Currently periodical changes and their variance are shown in absolute numbers. As Case Company has a plan to become four times bigger in revenue, absolute numbers are not obvious to show the right speed of growth. Furthermore, this kind of reporting indicates more of tactical thinking. Absolute numbers might keep the concentration on the end of the current financial year.

Unit X (Business Area Y)

		Period results			Actuals YTD		
		July 2012	Budget July 2012	Change July 2011 %	YTD 2012	Budget YTD 2012	Change YTD 2011 %
Revenue	Seperate invoicing	xx	xx	%	xx	xx	%
	Contracted revenue	xx	xx	%	xx	xx	%
	Projects	xx	xx	%	xx	xx	%
Gross margin		xx	xx	%	xx	xx	%
Profit		xx	xx	%	xx	xx	%
Number of employees		xx					

Exhibit 6: Element 2. Strategic thinking

To change thinking to more strategic way, a speed of improvement will be presented in percentage points as shown in *Exhibit 2*. Strategic thinking would keep the ultimate goal in the horizon and long-term planning in mind. Long-term planning would link down to short-term steps to reach the ultimate goal. This part shows what has happened in the past and what the current speed of growth is. This is an additional element, which is suggested by me.

As a third element, framework has a grouping of KPIs. As Cardinaels & van Veen-Dirks (2010) explain, grouping of KPIs helps the user to picture and to understand the meaning easily. Grouping will be done with definitions, which are simple and obvious to understand. Definitions should be familiar to everyone and used in everyday life to enable catching the idea of KPI. By looking at the headlines everyone can notice what the main idea of the KPI is. Headlines also signal what is a necessity for better performance or a challenging issue at the moment. By grouping company can communicate key priorities for the current year, but still put emphasis on the ultimate growth level. On the other hand, units can customise KPIs to local conditions and to their priorities with unit specific KPIs (Kaplan & Norton, 2008).

Unit X (Business Area Y)

			July 2012
Revenue	Seperate invoicing		xx
	Contracted revenue		xx
	Projects		xx
Gross margin			xx
Profit			xx
Number of employees			xx
Process (capasity)			
	Salaries and other personnel expenses / Revenue		KPI
Efficiency			
	XXXXXXX	per unit	KPI
		per person	KPI
	XXXXXXX		KPI
Clients (Possibilities)			
	XXXXXXX		KPI
	Separate invoicing / Contracted revenue		KPI
Employees			
	Absent days		KPI

Exhibit 7: Element 3. Grouping

As a fourth element, framework gives quick look for current standing. This is connected to the second element of strategic thinking. As the second element gives a sign for what has happened and at which speed level, traffic lights would signal if the speed has been good enough for the unit. Traffic lights are an integrated system to tell where unit is heading at and tell the demand level for the unit. Optimal level is a part of the traffic light and it is unique for every unit. This would probably increase a discussion of how to make the traffic lights green or how to improve the KPI.

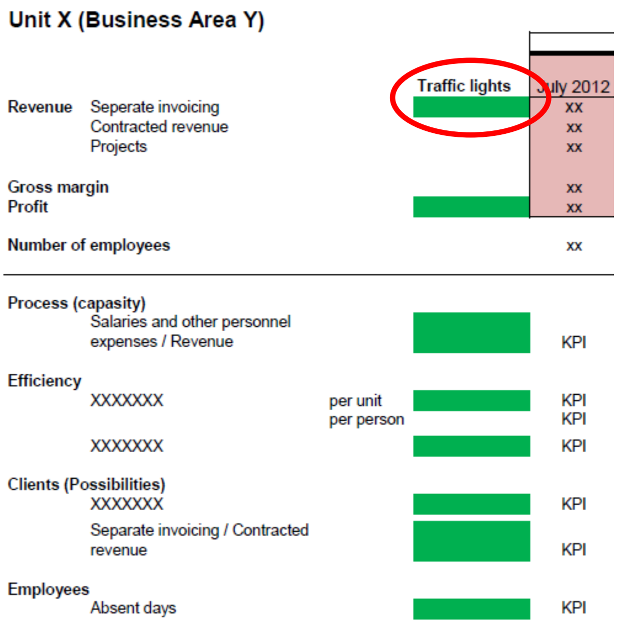

Exhibit 8: Element 4. Signalling

Selection of KPIs

As it is described earlier, framework should be the same for every management level. Nevertheless, emphasis of KPIs can be a bit different for every unit. That would take unit specific elements into account. Parameters are to guide for making a respond for correct action (Dagan, 2007).

As it is explained earlier by Cardinaels & van Veen-Dirks (2010), KPIs should be understandable for everyone and easy to recognise the intension of the indicator. KPIs are financial and non-financial measures. As financial measures tend to be understood easier than non-financial measures (Cardinaels & van Veen-Dirks, 2010), the fact should be kept in mind. Still, financial report template is to prevent lack of intelligibility by grouping the KPIs and choosing a few KPIs. Only a few KPIs would not lead to prioritising, as Marginson (2002) reminds. Tendencies for time fluctuations are integrated to the KPIs. KPIs will indicate the possible performance level for the whole financial year, because the growth estimates are calculated on yearly basis.

Financial report template is used for unit level in this research. Totally, there will be four to six KPIs the very same for every management level. KPIs will be designed so that, two to three KPIs will be common for every management level and the same amount of KPIs is specified for units. Common KPIs are about translating strategic objectives into business area or unit based figures with corporate level point of view. These are to take a look at the "big picture". The rest of the KPIs will be to respond for unit specific targets and requirements, and KPIs are set according to the needs in the unit. These are called unit specific KPIs. KPIs shown in the financial report template are performance controls for a quality, process and change level.

Common KPIs can be assigned as following for leading strategy implementations at the company level.

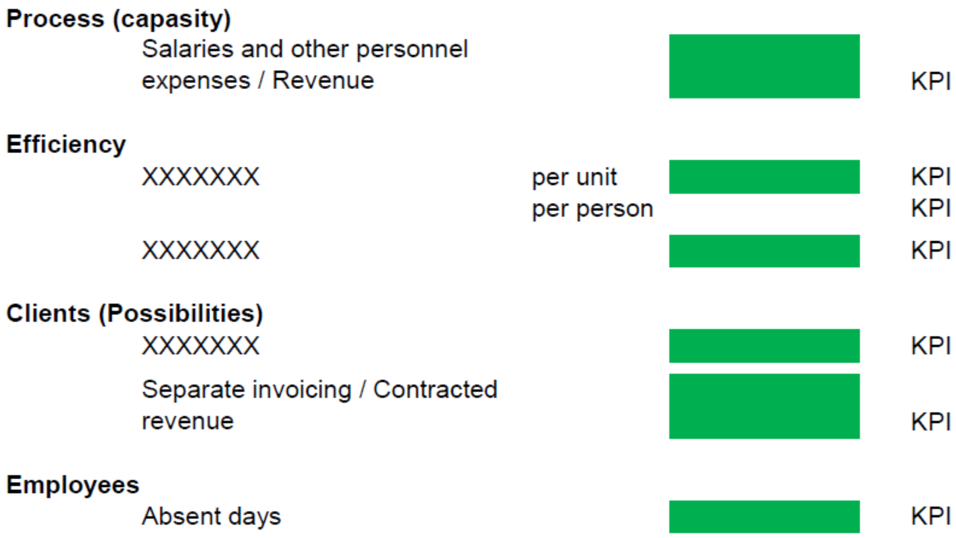

Exhibit 9: Common KPIs.

These KPIs are common KPIs. KPI "*Salaries and other personnel expenses / Revenue"* means that how much revenue is generated by current amount of employees. KPI indicates the demand level of work and refers to capacity slack. KPI "*Separate invoicing / Contracted revenue"* refers to duration of future cash flows and importance of separate invoicing. These two are percentage point measurements. KPI *"Absent days"* tell how many days employees have been absent during the last month. KPI is measured in numbers.

I will not illustrate possible KPIs for a unit level, because KPIs can be different according to units. Specific KPIs should be built on issues, which are mentioned in section 4.3 by HBAs and HUs to indicate important concentration points.

To sum up, financial report template is discussed with CFO in Case Company. Jointly CFO and I have designed an improvement for the financial report template to add KPIs for performance measurements. Additionally, I have designed how to present KPIs on the financial report template. I have adjusted the variance analysis to be shown in percentage points for periodical changes (element 2). I suggest showing KPIs in groups so that KPIs are easy to understand (element 3). To show standards and their appropriate level, I suggest using traffic lights (element 4). These additional points are for Case Company consideration whether Case Company wants to apply them. Nevertheless, these additional points are supported by theoretical research.

5 Discussion

The success of efficient use of management control system (MCS) depends on many aspects and decisions made in a company. Therefore, a structure of MCS cannot be explained in a generalised way. This research explains how many organisational aspects have to be considered from various perspectives.

First of all, the design of the MCS is based on fundamentals in organisational structure (Simons, 1995). Different organisational structures have to be dealt in different ways. Second of all, MCS have to be changed to refit to strategic requirements as managers get more information about how implementation has proceeded (Kober et al, 2007). As the strategy is formed, MCS will give feedback for the performance. Next strategy will be adapted to replace the assumptions which are made in the beginning (Kaplan & Norton, 2008). This creates a loop for MCS and every stage will be reviewed and adjusted from time to time (Kaplan & Norton, 2008). Some of the stages are reviewed more frequently than the others. Third of all, to make MCS work strategic objectives have to be broken down into operational level (Kaplan & Norton, 2008). MCS help to coordinate and to ensure that the goals are achievable by short-term steps. Fourth of all, at the end the success depends on the internal consistence in the company (Sandelin, 2008). MCS have to serve the elements in the company structure. On the other hand, drawing a line for when MCS stop having an effect is an impossible mission (Malmi, Brown, 2008) and therefore, MCS does not work in isolation. Fifth of all, MCS are much about managerial perception of how to use the elements in the MCS (for example Marginson, 2002 and Simons, 2000).

As Tessier & Otley (2012) explained previous researchers have criticised MCS theories being parallel and components of MCS are explained with different definitions. Because of it, empirical research results are mixed and not comparable among the studies. But the fact that MCS are individually designed to match company´s need is to be noted. Rather MCS have to be evaluated for each company. Such a MCS will have its full effect when it fits to the development stage where company is at that moment. Therefore, comparing studies is challenging in the first place. Based on this argument, results in this single case research do not explain totally how companies use the MCS in general. And therefore, generalisation of the results from this research should be also treated with caution.

5.1 Recap of research goals

The research is about adapting the current management control system (MCS) to fit changing needs of an organisation and especially in Case Company. Research problem is about "what kinds of components in the MCS can help to support the strategy execution in Case Company?"

First, MCS are reviewed in general sense to picture how MCS are formed by researchers. I have chosen Malmi & Brown's (2008) MCS framework of MCS as a package. This framework and other academic studies deal with understanding MCS's elements and implementation. Second, these points are kept in mind to adapt MCS in Case Company.

Answer for research question is given in the following way. To develop MCS in Case Company, Case Company is examined to understand how MCS work currently and what does not enable efficient use of current MCS. It turns out that Case Company is in a middle of a strategic change and that is driving a need for MCS adaptation. To make a change, it cannot be achieved at the current performance level. There has to be a change in operational matter. Therefore, the suggestion for developing current MCS is identified in two ways. First, the current MCS components are evaluated and reviewed. This is done to identify needs for emphasis on components in MCS. Empirical research includes studying Case Company documentation and interviewing four Management Team Members (MTM) and six Heads of Units (HU) in Case Company. Material and interviews are conducted together with Case Company representatives. Second, I will take a closer look at cybernetic control systems. Cybernetic control systems are highly important formal control system to indicate standards for performance. It is an easy and understandable way of communicating strategic objectives. Next I will explain what these steps mean in practise.

The first step to develop MCS is about the components of the MCS. Components should be adjusted to fit the strategy. Planning system control has been mainly on tactical decision time horizon. Even though short term actions are important, they should be based on reaching long-term goals. Cultural system controls are hard to modify, because cultural aspects are slow to change. In Case Company cultural controls are strongly attached to working by employee´s own name, like entrepreneurship, and therefore, employees are committed to perform well. Organisational culture includes an encouraging and curious mind set, which helps Case Company to exploit its current service products and to find ways to serve clients better. Cultural control should remain loose, but additional boundaries are established by setting processes to support new employees and to share responsibility. Reward and compensation control system are not effective at the moment. Therefore, management team has set a new and more encouraging way of compensating, and these new reward control systems are to be applied in the next financial year. Cybernetic system control will be transferred to reach operational level. At this moment, Heads of Business Area (HBA) are accountable for the whole business area, even though HUs are given seemingly responsibility for performance in their units under business areas. Administrative control systems will be changed a lot after the strategy for the second phase. Governance structure is adjusted with new management team positions to support the growth. Organisational matrix will be still changed. An important thing at this point is to define positions and set specific requirements for them. The research in Case Company emphasises a lot setting processes to improve the coordination and communication.

The second step to develop MCS is about using standards in financial report template which is a part of the formal, cybernetic control systems. To be noted, other control systems are also highly connected to cybernetic control. Chief Financial Officer (CFO) and I have conducted a modified financial report template which includes target measures for controlling the performance and also to understand the direction of the performance. This is based on strategic objectives, which are broken down to strategic goals at a unit level. Breakdown is done by setting initiatives for every business area in Case Company and thereafter, the initiatives are assigned for MTMs and HUs to ensure the implementation. At this moment initiatives are not attached to financial reporting. Additionally, I design how to present performance metrics on the financial report template. These additional points are for Case Company consideration whether Case Company wants to apply them.

By setting demands, HBAs can make HUs accountable for their action, and on the other hand, to delegate managerial position responsibilities. Hence, strategic objectives can be brought to everyone´s attention at every management level. The financial report template has the mind set to show strategic objectives. Still, I will not set specific targets for the performance (for example growth rate), rather I will suggest how financial report template could be by using cybernetic control methods as a basis. In this way, HUs are involved in the decision making in HU's own unit. Sharing responsibility would demand for increased information sharing by both parties, HUs and HBAs. HUs cannot be successful in carrying out a task if they are not given enough information for decision making. Neither HBAs cannot control for performance at their management level if they do not carry it out or explain other managers how to do it.

The preparation for the second phase takes more effort to make the changes. Nevertheless, HUs can see the benefits in for their work: "*I can see that we are in a process of changing and it cause us extra work. But I am happy that everyone wants to have less reporting at the end (HU 3)".* Case Company has all the possibilities to achieve more that the current level of performance.

5.2 Conclusion

As in many research about empirical studies, several cautions are necessary in interpreting the results in one case study. However, results from this empirical research are expected to be relevant to improve the management control system (MCS) in Case Company. As a main method, interviews are conducted in a way that enables interviewees to talk freely about MCS. Semi-structured interviews focus on MCS and related factors in strategy implementation. The research design relies heavily on managers' descriptions of the actions which managers think has happened in Case Company. This leads to a fact, that the data and analysis are largely descriptive. In the interviews managers bring the subject up and because of it interviews concentrate on issues which are important for the usability of the MCS. Managers tell their opinions of the shortcomings in current MCS and why they are not feeling comfortable with the current situation today. Specific themes for MCS are already identified before the interviews by CFO and I.

Interviews reveal dominant aspects, which are important for MCS. Dominant aspects are some of the theme areas in the interviews. If the aspects are not mentioned in the interviews, these are treated also as challenging points, which do not support the strategy execution. These topics are relevant for the empirical part of this research, because these parts have to be considered in development suggestion. In this way, the roots and linkages of the MCS are uncovered. Following this method, I am able to find key themes for the MCS. Even though one of the HBAs and four of HUs are not interviewed, interviews still give a good picture of the current MCS in Case Company.

Reasons for a need of changing MCS can be found at organisational development level, management and strategy level, and financial reporting and strategy level. These are the main aspects to be affected in developing performance and changing strategy in Case Company. Here I will explain aspects, which have arisen as challenges for Case Company.

First, management team has experienced major governance structural changes. There are new people appointed for positions which did not exist before in the management team. This affects the management in Case Company. Clear description of the positions and responsibilities for the positions has to be formulised.

Second, at operational level many Heads of Unit (HU) have had difficulties to define strategic change. In this way, control systems do not help to coordinate, because HUs cannot picture the direction. Case Company's management team members (MTM) ought to communicate and facilitate processes around delegation improvement more explicitly and take a permissive stand on HUs. It could be suggested that if Case Company succeeds in designing the delegation process, it would strengthen its position for succeeding in its strategy execution.

Third, lack of adequate communication has led to a stage where HUs do not feel that they get answers for their questions and help from the management team when it comes to operational decisions. Management team has to share strategy outside of the team. First of all, clear definition of the strategy will decrease management team's working load for guidance. But most of all, communication will support Case company to make a good basis for the planned growth.

Fourth, Case Company points out that it does not have indicators for the process, change and quality throughout the company. Financial report template helps Case Company to check and discuss the results in monthly meetings. Then Case Company can analyse what has led Case Company to this situation. KPIs will also point out which are the key concentration points of strategic objectives. Nevertheless, indicators give a signal of the direction for the performance and keep the main focus on the target. Therefore, there are also corporate KPIs in addition to unit specific KPIs.

To help to execute the strategy, Case Company should identify strategic objectives at every organisational level. In this way, strategy can be communicated to everyone. Components of the MCS should be adjusted to make a fit for strategy, especially in administrative, cybernetic and planning control system in Case Company. Thereafter, financial report template will be further processed for cybernetic control systems. This would give more appropriate measuring system for strategic execution.

Following research areas on MCS could be on analysing the differences in KPIs at different business areas in Case Company. Case Company still has to assign KPIs for every unit and finding accurate KPIs would require several rounds of interviews. To find generalised solutions for MCS, one empirical study could be conducted to find out how connected the components of MCS are. This would be about connections in many organisations and therefore, findings can also be used for generalising decisions if results are appropriate. Another research area could be about managers’ perception on valuing the different components of MCS and if there are some generalised opinion regardless the size.

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Abbreviations

CEO	Chief Executive Officer	MTM	Management Team Member
CFO	Chief Financial Officer	HBA	Head of Business Area
HU	Head of Unit	P & L	Profit and loss statement
KPI	Key Performance Indicators		

Exhibit

Appendix

Appendix I

Questionnaire for Interviews in Case Company

1. What programs**/ IT technology** do you use daily at work?

2. What kinds of **KPIs** do you use and report at the moment?
   - To which KPIs do you pay attention?
   - How much time do you need to gather the information for the KPIs?
   - What kind of KPIs would you like to have in the ideal case? What kinds of demands would it have for your current working load/ for Case Company?

3. What would enable you to work more **efficiently**? For example concerning the programs/ IT technology
   - Currently which parts of the process can be treated as bottlenecks?

4. In Your opinion, how Case Company could improve its **image for clients**?
   - In which areas does Case Company perform well and which areas could be improved? How should Case Company be seen by the clients in your opinion?

5. How does the **new strategy** appear in your work?
   - In your opinion, which areas are important to implement the strategy?
   - On the other hand, which areas could be challenging to carry out?

6. Has the focus point of the **management control** changed?
   - What kind of performance control would be the best for you? And for everyone in Case Company? Can you recognise this performance control currently?

7. What do you think of the following KPIs and outlook of the financial report template? (Question presented only for Heads of Unit + *appendix II*)

Appendix II

Business unit X

			Period results			Actuals YTD		
			July 2012	Budget July 2012	Increase from July 2011 %	YTD 2012	Budget YTD 2012	timeline YTD 2011 %
Revenue	Seperate invoicing		xx	xx	%	xx	xx	%
	Contracted revenue		xx	xx	%	xx	xx	%
	Projects		xx	xx	%	xx	xx	%
Gross margin			xx	xx	%	xx	xx	%
Profit			xx	xx	%	xx	xx	%
Number of employees			xx					
Process (capasity)								
	Salaries and other personnel expenses / Revenue (1)		KPI					
	Salaries and other personnel expenses / Contracted revenue (2)		KPI					
Efficiency								
	Used hours / Euros (3)	per unit	KPI					
		per person	KPI					
	Used hours / Possible hours (4)		KPI					
Clients (Possibilities)								
	New contracts (5)		KPI					
	Offers sent (6)		KPI					
	Separate invoicing / Contracted revenue (9)		KPI					
Employees								
	Absent days (10)		KPI					